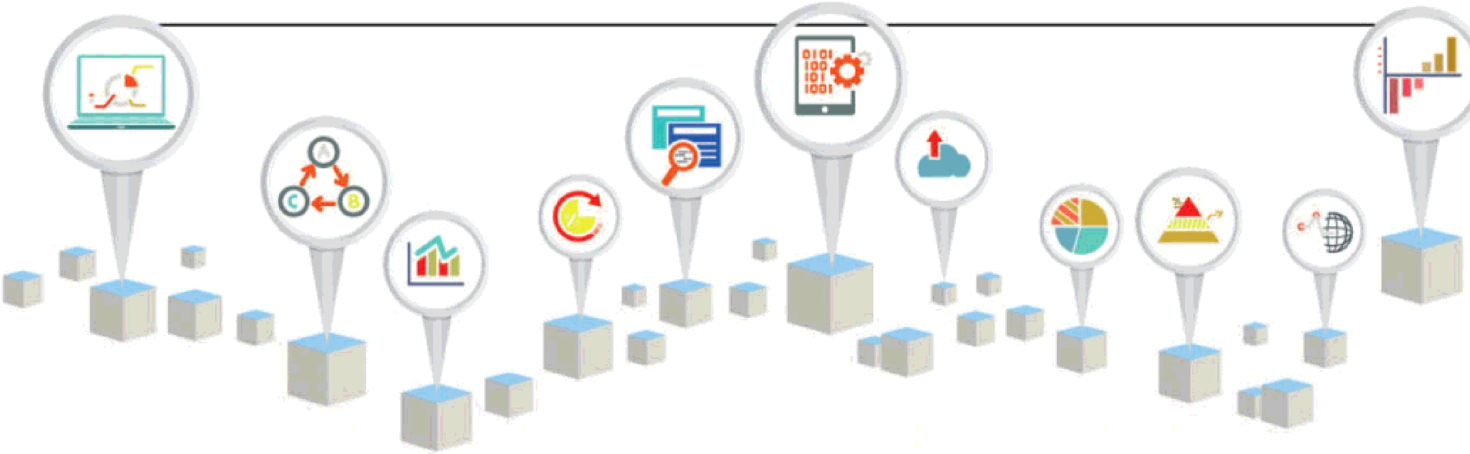
December 5 – December 11, 2016 | bloomberg.com

Bloomberg Businessweek

The New Money Issue

p51



THE FUTURE OF PROFITS, TODAY

For manufacturers, exploiting the industrial Internet of things is a matter of survival

By now, business leaders know that it's more than a buzz term. The industrial Internet of things, a system of systems that connects people and processes with smart machinery and devices, analyzing massive amounts of data in cloud-based networks to make operations run smarter, isn't just the technology *du jour*—it is an economic necessity.

The IIoT is obliterating limitations long viewed as insurmountable. "Traditionally, the problems companies have always faced—such as losses in production efficiency, process reliability and supply chain optimization—are all small, but add up to death by a thousand cuts," says Andrew Hird, Vice President and General Manager of the Digital Transformation unit at Honeywell Process Solutions. Until recently, the information needed to overcome these problems was inaccessible, dispersed across hundreds or even thousands of people and servers. That era is over.

"The IIoT allows you to assemble and leverage all the knowledge across your entire operation, from your engineers, production people and finance team to even outside players like process licensors and OEMs, so they can all be engaged in solving a specific problem," says Hird.

It also brings powerful new capabilities, such as dynamic modeling in the cloud with real-time collaboration among remote teams. Hird notes that the financial effect is often substantial. "In one medium-size refining company, we've identified $50–60 million per site, per year of additional value by doing a full IIoT deployment," he says.

In a recent survey of 200 executives conducted by Honeywell and KRC Research Inc., 67 percent of manufacturers said they will invest more in IIoT and data analytics technology in 2017. However, a number don't know where to start. To provide clarity, the company offers a webinar, "Three Things You Can Do Today to Profit from the IIoT." The basics:

- **JUST DO IT.** Don't get bogged down in limitless options. "Identify your biggest problem and the data you need to solve it, then devise a way to get *just that data* to the right people," says Hird. "This thin-slice approach allows rapid experimentation."

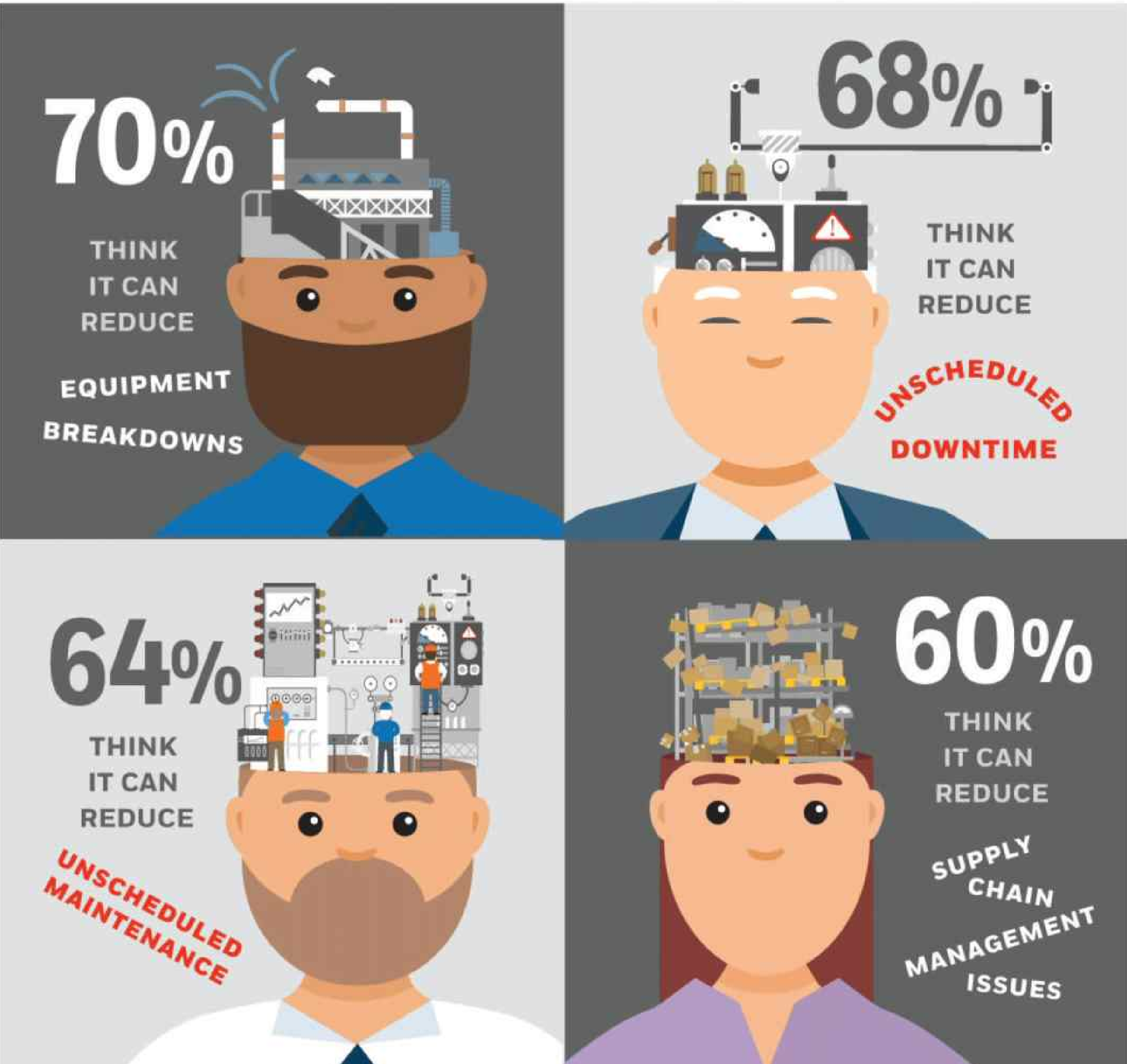
- **FOCUS ON COLLABORATION.** The real power of the IIoT goes beyond data to the teams collaborating to optimize processes. Connect people first, then machines and assets.

- **FACTOR IN MILLENNIALS.** Younger employees are demanding broad interconnectivity to remote processes. "They want to be connected at all times, and collaborate just like they do on their personal devices," explains Hird. "If you don't make these tools accessible, your competitors will."

Honeywell Process Solutions offers manufacturers unique strengths in implementing IIoT. The company's technology, which processes over 90 million data elements per day, results in fewer production losses and less unplanned downtime for every conceivable industry, from oil and gas, refining and chemical, and mining to pulp and paper, and life sciences. Honeywell is also a leader in navigating cybersecurity and data rights—two complexities that permeate the IIoT.

By offering a complete IIoT infrastructure from edge devices and real-time digital intelligence through unified data, analytics and visualization, and dynamic process modeling, and through a collaborative network of partners and deep domain expertise, Honeywell's Connected Performance Services empowers manufacturers to find new solutions to classic problems. And this means a "new normal" is at hand. — *Ron Geraci*

MANUFACTURING EXECUTIVES AGREE THAT DATA ANALYTICS CAN REDUCE COSTLY PROBLEMS



Learn about IIoT by Honeywell – go to www.hwll.co/iiot

Honeywell

Bloomberg Businessweek
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PHOTOGRAPH BY AMY LOMBARD FOR BLOOMBERG BUSINESSWEEK

Bloomberg Businessweek
December 5 — December 11, 2016

Cover Trail

How the cover gets made

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"It's our second annual New Money Issue."

"New money? If it's the opposite of old money, is it basically about rich babies?"

"It has nothing to do with rich babies. The stories are pretty diverse, ranging from a first-person account of what it's like to be transformed into a social media influencer to a story about a business incubator for former drug dealers to a look at how young couples across the country deal with finances."

"I probably should've asked this before I hired a photographer to shoot a rich baby."

2

"There's something slightly disturbing about this."

"For me as well. I just opened my first savings account last year. I should've been a baby model."

PHOTOGRAPH BY AMY LOMBARD FOR BLOOMBERG BUSINESSWEEK


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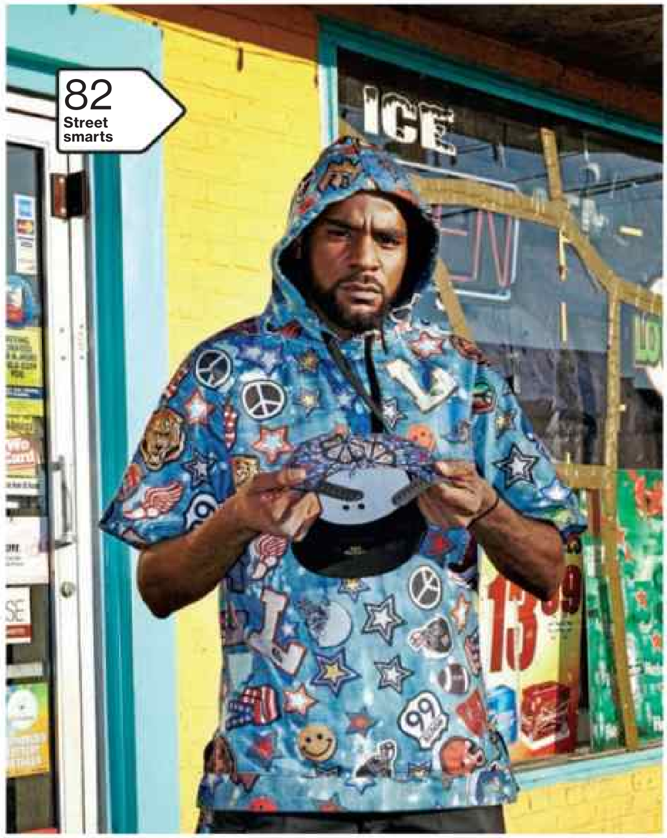

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MAIN: AMY LOMBARD FOR BLOOMBERG BUSINESSWEEK; HOPKINS: PAUL ARCHULETA/FILMMAGIC; MODI: THE ASAHI SHIMBUN/GETTY IMAGES

The Next Stage of Sustainability

Early adopters in the fleet management industry know there is still much work to do

NAFA Fleet Management Association

While sustainable fleet operations might seem like a trendy topic to some, the U.S. fleet industry has been steadily phasing in sustainable strategies for some time. Ten years have passed since the Alternative Motor Vehicle Credit became part of the U.S. tax code, and it's been over five years since major corporations launched ambitious campaigns to significantly reduce fleet vehicle GHG emissions.

In 2017, the earliest adopters of the multi-tiered Sustainable Fleet Accreditation Program, administered by the nonprofit fleet management association NAFA, will be up for re-accreditation after completing their first two years in the program. "Spring of 2017 is when current enrollees get their first crack at being re-accredited at a higher NAFA tier or level than where they started," explains Phillip Russo, CEO of NAFA. "We're hoping to see a significant percentage of them move up."

Similar to the construction industry's LEED standards for measuring and benchmarking green building practices, NAFA's Sustainable Fleet Accreditation Program, designed in conjunction with partner CALSTART, clarifies and defines what sustainability means for fleets. The principal metrics are lower emissions, improved fuel efficiency and reduced fuel use.

> **"About one-half of our members are on the public-service side, with an average fleet size of 2,100 vehicles."**
>
> *—Phillip Russo, NAFA*

The program has attracted an initial wave of corporate participants demonstrating not just willingness but also a proven ability to achieve progress in green fleet operations. "Within the first year, we had nearly 50 fleets enroll in the program," Russo reports. "Many of these fleets are early adopters of alternative fuels, but others needed NAFA's help in formulating their policies and go-forward strategies."

This need has been addressed through a new set of NAFA tools that facilitate comprehensive planning. In cooperation with North Carolina State University, NAFA and CALSTART have produced a series of six one-hour Sustainable Fleet Accreditation Program webinars to educate fleet professionals on how to establish a sustainable fleet program that fits their particular needs and conditions.

"It's a six-module series that helps them set their agenda according to best practices," Russo says. "There is specific guidance on how to track fuel use, train drivers and run analytics about alternative fuel use, and—this part matters a lot—'manage up' so that the ultimate decision-makers in the company appreciate the business value and the good-citizen value of following these protocols."

The economic and societal context of sustainable strategizing is complex. New regulations that tighten requirements as well as offer rewards—such as the Alternative Fuel Vehicle Infrastructure Tax Credit—affect the total cost of ownership that a fleet manager must continually calculate.

There are also reputation-management factors, as Russo points out. "About one-half of our members are on the public-service side, with an average fleet size of 2,100 vehicles," he says. "The good news on emissions, fuel cost and other outcomes is currency for them."

The price of carbon fuels continues to cast a shadow over sustainability's economic potential in the short to medium term. One wild card is new taxes due to infrastructure need and depleted state coffers. "New Jersey just upped its per-gallon tax by 23 cents, and in the process went from being the state with the second-lowest gas prices to the state with the third-highest prices—all the result of a tapped-out highway fund and major infrastructure needs," says Russo. A tax change of this magnitude "could have a notable psychological effect," he adds, on how other state legislatures proceed going forward.

However, if such a trend were to emerge, it will only help drive the sustainable fleet transition, as operators continue to increase efficiency along with profitability. — *David Gould*

Opening Remarks

Trump And Yellen: Besties?

By Peter Coy

Trump may well soften his opposition to low interest rates once he's in the Oval Office

The Supreme Court isn't the only institution President-elect Donald Trump could influence over the next four years. He could also reshape the Federal Reserve—the high court of money. There are already two vacancies on the Fed's Board of Governors for him to fill next year. Two more seats, including that of Chair Janet Yellen, are likely to open up by the time his term is a year and a half old, giving him a majority of appointees on the seven-member board. He could also put his stamp on the central bank by signing legislation to force the Fed to publish a rate-setting rule and follow it.

Trump's power to remake the Fed has to alarm the occupants of its headquarters on Constitution Avenue. As a candidate he delighted in bashing Yellen, saying she was keeping rates low to prop up the Democrats. He called her more political than Hillary Clinton. He said the Fed's cheap money had inflated "a big, fat, ugly bubble" and, with some justification, that savers were "getting just absolutely creamed" by low rates.

But what Trump will do about the Fed once he gets in office is far from clear. He could certainly name Fed governors who would be more hawkish than Yellen and her board allies—more partial to raising interest rates to stave off inflation and keep asset bubbles from forming. It's also possible, though, that he could revert to his roots as a real estate developer and favor low interest rates that encourage, or accommodate, faster economic growth. A turn to dovishness wouldn't be surprising—it's typical for incumbent presidents to want rates low for as long as they're in office. There's even talk that Trump could reappoint Yellen to another four-year term when her current one ends on Feb. 3, 2018.

The upshot is widespread uncertainty about the relationship between two people—Trump and Yellen—who were born just two months apart in New York City in the summer of 1946. One is about to become the most important man in the world. The other may already be the most important woman, rivaled only by German Chancellor Angela Merkel. How they spar or cooperate will influence economies and financial markets around the globe. Investors are sifting the evidence for any clue about what will happen. "This is the stuff that we're just starved for," says Jeffrey Rosenberg, chief investment strategist for fixed income at BlackRock, the giant asset manager.

One thing that's clear is that Trump could inadvertently box himself in if he names a slate of hawkish Fed governors. In vowing to make America great again, he's promised to lift the economy's growth rate, around 2 percent since 2009, to double that or more. Yellen is sympathetic to the need for stronger growth. In an Oct. 14 speech in Boston, she speculated about the benefits of "temporarily running a 'high-pressure economy,' with robust aggregate demand and a tight labor market." Against all odds, she could be an ally to Trump in accelerating growth.

In contrast, some of the people who've been discussed as appointees to the Fed are far more skeptical about using monetary policy to rev up the economy. The person most often named as Yellen's possible successor is the conservative John Taylor, a professor at Stanford University and senior fellow at the Hoover Institution. He invented a rule of thumb for how central banks should steer rates based on the paths of inflation and output. The Taylor Rule caught on around the world in the 1990s and 2000s. But in a Nov. 23 blog post, he wrote that there's been "a retrogression in parts of the central banking world in the past dozen years"—that is,

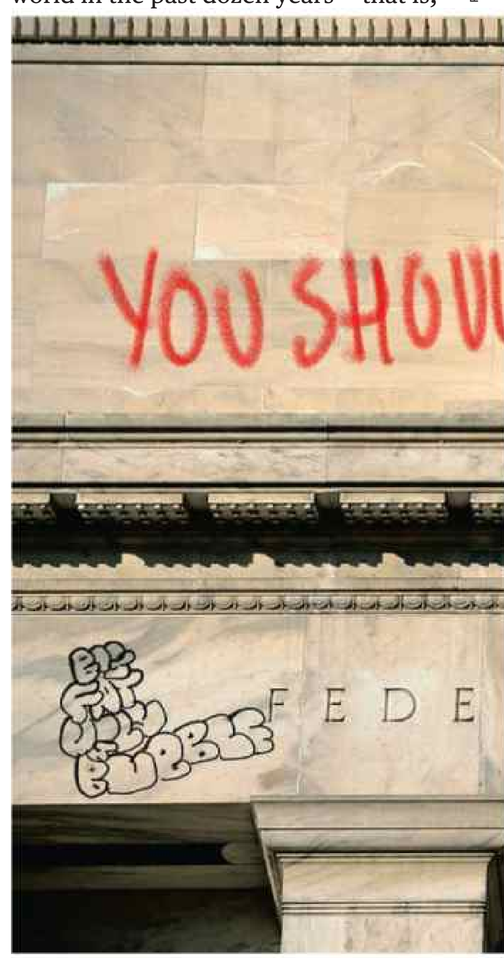


PHOTO ILLUSTRATION BY 731; PHOTO: HISHAM IBRAHIM/GETTY IMAGES

a deviation from rules-based monetary policy. If Taylor or someone from his camp ran the Fed, the central bank might move quickly to extinguish any deficit-funded growth spurt that threatens to push inflation above the Fed's 2 percent target. "Trump's probably not going to like that," says Paul Kupiec, a resident scholar at the American Enterprise Institute. "It wouldn't be in President Trump's best interest for the Fed to come in like gangbusters" in an effort to suppress inflation, says Timothy High, director of U.S. interest rates strategy at French bank BNP Paribas.

It's possible that Trump will never face this problem because the inflationary growth spurt won't happen. Republicans who worry about budget deficits might not stand for the combination of higher spending and lower taxes that he envisions. Financial markets, though, clearly expect that he'll get at least some of what he wants. Stock prices and interest rates have soared since the election. On Nov. 29, billionaire investor Stanley Druckenmiller predicted that the Trump economy will drive the yield on the 10-year Treasury note as high as 6 percent over the next year or two, up from 2.3 percent now.

Such a boomlet would worry enemies of inflation in the Trump camp such as Judy Shelton, co-director of the Sound Money Project at the Atlas Network, which supports free-market think tanks. Shelton has suggested that the U.S. issue gold-backed bonds—one step away from putting the dollar back on a gold standard. But anyone who thinks that Trump himself is a determined advocate for hard money hasn't been paying close attention. As on several other issues, he's come down on both sides. In September he told CNBC in a phone interview that Yellen "should be ashamed of herself" for keeping interest rates low. But in the same interview he said that "as a real estate person, I love it" when rates are low. He made clear that what he feared most wasn't low rates, but what will happen when they inevitably go up. "The new person that becomes president, let him raise interest rates or her raise interest rates," he told the network. "And watch what happens to the stock market when that happens, OK?"

Yellen has largely kept her counsel about all this—unlike, say, Supreme Court Justice Ruth Bader Ginsburg, who apologized after calling Trump "a faker." Yellen plays the role of apolitical, affectless functionary. That doesn't mean she's powerless to resist pressure from the White House. The president can remove a Fed chair only "for cause," which typically means misconduct, turpitude, failure to perform duties, or breach of duty. Yellen has told Congress that she "fully" intends to complete her four-year term as chair of the Fed's Board of Governors.

Against all odds, Yellen could be an ally to Trump in accelerating growth. Or not

The seven members of the board, together with a rotating selection of five Federal Reserve Bank presidents, make up the Federal Open Market Committee, which sets interest rates. (The FOMC is widely expected to lift the target range for the federal funds rate by a quarter-point, to 0.5 percent to 0.75 percent, at its Dec. 13-14 meeting.) Trump can name two governors as soon as he takes office because the Republican Senate has refused to act on President Obama's two nominees. One will become vice chair for regulation, pushing aside Democrat Daniel Tarullo, who's informally held the role. That could lead Tarullo to resign.

If Yellen is unhappy with Trump's efforts to exert control over the Fed, she could choose to stay on the board as an ordinary governor after her term as chair is over. Serving out her full 14-year term as a governor would keep her in office until Jan. 31, 2024, when she would be 77. Fed chairs don't like to hang on that way, says Kupiec, an economist who worked for Alan Greenspan at the Fed from 1988 to 1997. There's one precedent for staying put: Marriner Eccles completed his term as chairman of the Federal Reserve's Board of Governors in January 1948 but remained on the board until July 1951.

It's easy to imagine Trump continuing to pressure the Fed. The harder thing to figure is in which direction, hawkish or dovish. "Trump appointees are likely to shift the needle" toward tighter monetary policy, Ian Shepherdson, chief economist at Pantheon Macroeconomics, told the *New York Times* right after Trump's surprise victory. Quite possible. But as Trump has often demonstrated, defying conventional wisdom is what he does best. Ⓑ —*With Steve Matthews and Craig Torres*

To read Tyler Cowen on Donald Trump's disastrous pledge to keep jobs in the U.S. and Justin Fox on peak oil, go to

Bloombergview.com

How to Keep U.S.-Cuba Relations on Track

President Obama should go to Havana for Fidel Castro's funeral

History will absolve me, Fidel Castro said in 1953, shortly before he took the world stage. He was wrong. In power for almost a half-century, he brought the U.S. and Soviet Union to the brink of nuclear war, exported revolution and repression, and turned his island into a penurious police state. His death could open the door to a brighter future for Cuba—especially if its neighbors, beginning with the U.S., pursue the right policies.

As ruthless as he was charismatic, Castro managed to hold off the superpower 90 miles from Cuba's coast almost by force of will, becoming an icon for hemispheric anti-Americanism in the process. His cunning cultivation of patrons—first the Soviet Union, and then Venezuela—enabled the country to endure the U.S. embargo and his own economic policies, which turned the Caribbean's most advanced economy into a basket case.

Any reckoning of his legacy must grant the Cuban revolution's achievements: high rates of literacy and educational enrollment, low levels of crime and infant mortality, relatively low levels of poverty and inequality, and universal health care. But the price was outrageous. Castro squandered the country's enormous economic potential and was an exemplary human-rights abuser. For decades he made his island a prison, its people denied freedom of speech, with dissidents forbidden to travel and subject to arbitrary arrest.

The question now is how best to transcend that legacy. As the standard-bearer for *los historicos*—the revolutionary old guard—Castro was a bulwark of revolutionary fervor blocking political and economic reforms. After President Obama's visit to Cuba in March, he sneered that "we do not need the empire to give us anything." U.S.-Cuba relations thawed despite him. Castro's passing could pave the way for speedier progress, both in relations with the U.S. and in setting the country free.

For sure, his brother Raul, Cuba's president since 2008, is no liberal in waiting. The reforms of recent years have been timid. Obama's visit prompted party leaders to circle the wagons, and the elder Castro's death could have the same short-run effect. If at the same time the U.S. were to reverse course on improving relations, as President-elect Donald Trump has threatened, Castro's death could become a setback rather than an opportunity. Cuba's aging revolutionaries might be reenergized—at some cost to the U.S. and at enormous cost to Cuba.

One small step to guard against that outcome would be for President Obama to change his mind and attend Castro's funeral. By returning to Havana, the president can express the U.S. commitment to move forward in its relations with the Cuban people, pay respect to their achievements and suffering under Castro, and affirm that their prospects, with luck, might be about to improve.

Congress Can Help Retired Coal Workers

Money is needed to preserve health benefits and shore up pensions

The politics of coal are controversial; helping retired coal miners shouldn't be. Congress can and should take action to ensure that thousands of former coal workers continue to receive their health benefits past the end of this year and to keep their pension benefits secure.

The health-care problem dates to 2012, when Patriot Coal went bankrupt—the first of many coal companies to do so. Patriot set aside money to temporarily cover its health-care obligations to retirees. (That fund now also includes workers who retired from Peabody Energy and Arch Coal, both of which filed for bankruptcy this year.) But the money wasn't intended to last forever. On Jan. 1, 2017, it's set to run out.

If it does, 12,500 retired coal workers will lose their health benefits. Congress can prevent that by passing a bill, which the U.S. Senate Finance Committee already approved, that would transfer unused money from a separate program for cleaning up abandoned mines. The bill would also buttress the workers' pension plan. Congressional leaders want to narrow the bill, Bloomberg Government reports, by extending miners' health benefits only and leaving pensions to be resolved later. That would be foolish: The longer the government waits to close the pension gap, the more it will cost.

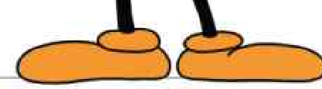
Why should coal miners enjoy special guarantees? The answer is that coal is different. Although its decline has resulted largely from cheap natural gas, it's also been harmed by an explicit government effort to wean the U.S. off coal.

That effort is essential. Coal burning inflicts enormous damage on human health, the environment, and the climate. But as the government has worked against the coal business, it's assumed an obligation to help the people most affected. This bill addresses that obligation, at no cost to taxpayers. It's the least Congress can do. B

REUTERS

Movers

By Kyle Stock



$108b

▲The U.S. government will forgive as much as $108 billion in student debt in coming years, according to a new congressional report, thanks to the Obama administration's debt relief efforts. **Enrollment in federal student loans that tie repayment to earnings has tripled in three years**, to 5.3 million borrowers.

▲ **Tiffany posted its first quarterly sales increase in two years**, an unexpected 1.2 percent bump. But executives warned that protests at Manhattan's Trump Tower could dim holiday transactions at its flagship shop next door.

▲ Walt Disney is poised to win 2016 box-office bragging rights after its ***Moana* garnered $81 million in Thanksgiving weekend ticket sales**. A new *Star Wars* chapter in December will pad the lead.

U.S. box-office revenue Jan 1.-Nov. 27

Disney	**$2.44b**
Time Warner	**$1.81b**
21st Century Fox	**$1.38b**
NBCUniversal	**$1.24b**
Sony	**$0.85b**
Viacom	**$0.75b**

▲ Former Prime Minister **François Fillon won a surprising victory in France's center-right party primaries** on Nov. 27. Fillon, who's now emerged as the most likely winner in France's presidential election next April, promises to cut business taxes and take a hard line with labor unions and immigrants. More ▷ p21

▲ A new service from AT&T, **DirecTV Now, bundles more than 100 channels** for

$35

a month. The company is targeting the 20 million U.S. consumers who don't subscribe to satellite TV or cable, but have iPhones or smart TVs.

▲ **Delta Air Lines banned for life a passenger who yelled and swore** in support of Donald Trump at a packed cabin. The heckler was flying from Atlanta to Allentown, Pa., two weeks after the election.

Athene Holdings, an annuities giant, filed plans for a richly valued IPO

$7.8b

Pilgrim's Pride loaded up on poultry with the purchase of chicken producer GNP

$350m

The New York Mets signed Yoenis Céspedes to a four-year deal, paying a record sum for an outfielder

$110m

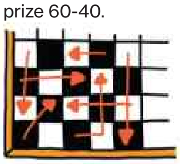
U.S. home prices, measured by the Case-Shiller index, topped a decade-old high

191.8

U.S. GDP hit its fastest pace in two years in the third quarter

3.2%

▲ Defending world chess champion **Magnus Carlsen retained his title against challenger Sergey Karjakin**, prevailing in a tie-breaking round in New York on Nov. 30, after the initial 12 games ended with a 6-6 tie. Carlsen and Karjakin will split the $1.06 million prize 60-40.



Ups

▲ Oil prices jumped as much as 9 percent on Nov. 30, as **OPEC finally reached a deal to cut production** for the first time in eight years.


Mnuchin

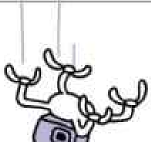

Ross

▲ President-elect Trump, who railed against Wall Street while campaigning, **tapped former Goldman Sachs partner Steven Mnuchin as Treasury secretary and billionaire investor Wilbur Ross as commerce secretary**.

Downs

▼ Italian stocks swooned in anticipation of a Dec. 4 constitutional referendum aimed at shrinking the senate and shifting power from some regions to the central government. **Prime Minister Matteo Renzi said he would resign if the plan he's championed fails** to win support. Europe will be watching to see if populism will continue to sweep the continent.

▼ **GoPro said it would cut 15 percent of its workforce**—some 200 positions—as it shutters its entertainment division. The company's newest camera is selling well, but GoPro recently recalled its first drone when the machines started falling out of the sky.



▼ The guy who **created the Big Mac for McDonald's** died on Nov. 30. He was 98 years old.

▼ Sirius XM agreed to pay

$99m

to settle a lawsuit brought by the Turtles over **unpaid royalties for songs recorded before 1972**. *Happy Together* indeed.

▼ Lufthansa canceled another 1,700 flights as its striking pilots walked off the job on Nov. 29, capping a week of walkouts that led to a total of 4,500 flight cancellations. **The airline has offered to raise pilot pay by 4.4 percent**, but after a record annual profit, the workers want the figure to go a bit higher.

▼ **Harvard endowment employees won't receive their full pay** after trailing their benchmark by 3 percentage points in fiscal 2016.

▼ Fashion designer and Fiat heir Lapo Elkann was arrested in New York for allegedly faking his own kidnapping and **demanding a ransom of**

$10k

U.S. venture capital funding through the third quarter was down 9.3 percent

$55.5b

Airbus Group announced layoffs as it consolidates roles in its corporate headquarters

1,164

Valeant Pharmaceuticals shares slid again on Nov. 30, as a deal to sell a drug portfolio fell through

–7%

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WHAT'S NEXT IN ETFs

There's no lack of innovation in the world of exchange-traded funds (ETFs). More than 1,000 new ETFs were launched globally in 2015, with the industry on track to launch a similar number this year, according to Bloomberg Intelligence.[1] Going forward, State Street Global Advisors (SSGA) sees the industry on the verge of a host of changes, such as partnerships and the introduction of more outcome/objective-oriented strategies that range from active to smart beta to environmental, social and governance (ESG) investing.

WORKING WITH PARTNERS

"The practice of developing products collaboratively to meet investors' needs is part of the SPDR ETF culture," says Rob Forsyth, SPDR Senior Business Development Manager at SSGA. Beginning in 1993 with the very first ETF, the SPDR S&P 500 ETF (SPY) was developed in partnership with the American Stock Exchange. More recently, a collaboration with the Natural Resources Defense Council led to the development of the SPDR S&P 500 Fossil Fuel Reserves Free ETF (SPYX).

To expand its actively managed ETF offerings, to complement its current active asset allocation strategies, SSGA has partnered in a different way, joining forces with asset managers that enjoy brand recognition in the U.S., Forsyth explains. As a result, the affiliated sub-advisors are well known managers in their respective asset classes: Blackstone/GSO (senior loans), DoubleLine Capital (fixed income) and MFS Investment Management (equities).

In addition to the development of innovative products, a byproduct of this approach is broader and stronger relationships with clients, notes Forsyth.

THE COMING SHAKEOUT AND BOOMS

The quest for smart beta is almost universal. But the proliferation of smart beta ETFs won't continue indefinitely, predicts Nick Good, co-head of the Global SPDR business at SSGA. He believes that "there will be a shakeout in which a few funds will start to generate the trading volume and the assets that traditional market-cap weighted beta have generated" because of their superior performance as a better buy-and-hold, or their ability to meet a defined investor need, such as lower risk or generate income.

Meanwhile, actively managed ETFs and ESG funds are going mainstream. SSGA's Gender Diversity Index ETF (SHE) that started trading in March 2016 is an example of the latter. The former category is likely to surge due to recent regulation approved by the U.S. Securities and Exchange Commission that significantly accelerates the approval process for proposed actively managed ETFs.

INNOVATE RESPONSIBLY

While the rapid pace of innovation is generally a benefit to investors, SSGA believes that the acceleration of ETF proliferation means that providers have a greater responsibility to take a thoughtful and diligent approach to launching products. SSGA has shied away from funds that extensively use derivatives to obtain exposure that may result in tax inefficiency, reducing an inherent benefit of the ETF itself: tax efficiency. Additionally, SSGA does not sponsor funds that use leverage to boost investment results. Those methods can produce impressive results over the short term, but not necessarily over the longer term. And some of these funds' structures make it difficult to discern a fund's asset class exposure and portfolio holdings, which negates another key benefit of ETFs: transparency.

"Sometimes it looks like there might be sponsors just trying to catch a hot market," says Jim Ross, Chairman of Global SPDR business. "We want to be innovative, but we want to responsibly innovate quality products." ●

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(1) "ETF Launches Maintain Blistering Pace," Bloomberg Intelligence, July 6, 2016. (Not available online.)

Beta: Measures the volatility of a security or portfolio in relation to the market.

Smart Beta: Defines a set of investment strategies that use alternative index construction rules to achieve outperformance over first-generation market capitalization based indices.

Important Risk Information

Concentrated investments in a particular industry or sector may be more vulnerable to adverse changes in that industry or sector.

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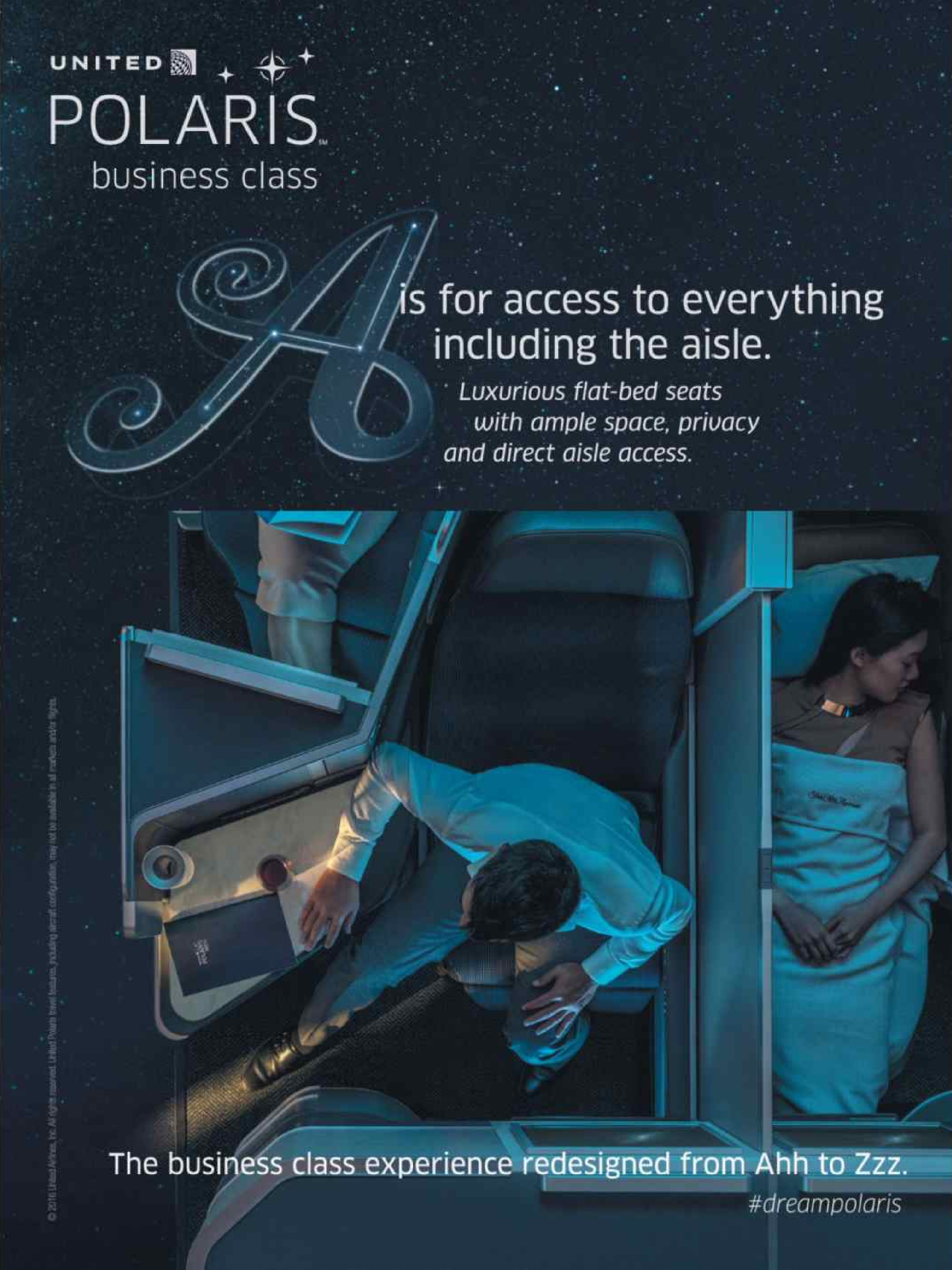
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Global Economics

December 5 — December 11, 2016

Thatcherism Redux in France

▶ **A pro-Putin student of the Iron Lady squares off against an anti-immigrant backer of the Big State**

▶ **"What will be left for the poorest people and the middle classes?"**

For the past 30 years, French voters have elected leaders who tinkered around the edges of economic policy. The 2017 presidential election could be different. Former Prime Minister François Fillon, the center-right standard-bearer, is a neo-Thatcherite who wants to downsize government, slash taxes on corporations and the rich, and scale back labor protections. His leading rival, Marine Le Pen of the National Front, has an economic plan that could be mistaken for a Marxist tract, with calls to strengthen the social safety net, raise trade barriers, and nationalize the banks.

The drastic measures proposed by both candidates are a reflection of France's malaise, with anemic growth and unemployment hovering around 10 percent for most of the past five years. Fillon is betting the French will give up some of their social protections to jump-start growth. "France will not stand for its decline," he told supporters after winning the nomination on Nov. 27.

Le Pen is betting that voters want more, not fewer, protections. Her economic proposals, long overshadowed by the Front's anti-immigrant, anti-European Union views, are only now coming into focus. With the Socialist Party in disarray under deeply unpopular President François Hollande, polls suggest that Fillon and Le Pen are almost certain to advance to a May 7 presidential runoff after an initial round of voting in April.

In a Nov. 27 interview on Europe 1 radio, Le Pen called Fillon's plan "the worst ever." Le Pen's top adviser, Florian Philippot, compared Fillon's proposal to cut €100 billion ($106 billion) in government spending to the "troika poison" given Greece by its creditors—a reference to the draconian fiscal measures imposed by the International Monetary Fund, the European Commission, and the European Central Bank in return for aid. "What will be left for the poorest people and the middle classes?" he asked in a TV interview.

Fillon is a social conservative who promises to uphold "French values," take a hard line on law and order, and forge closer ties with Russia—positions similar to Le Pen's. Indeed, in the primary, Fillon racked up some of his widest margins in regions such as the Mediterranean coastal area, where the *lepénistes* enjoy strong support.

Le Pen is reaching out to working-class voters who feel the system is stacked against them. That sounds a lot like Donald Trump, but Le Pen's economic plan veers sharply to the left of the U.S. president-elect's. She says she'll nationalize banks to force more investment in French industry, lower the retirement age, pump up welfare benefits for lower-income households, and preserve labor protections such as the 35-hour workweek.

This platform dovetails with the National Front's populist message that stubbornly high unemployment ▶

PHOTO ILLUSTRATION BY 731; PHOTOS: JEFF OVERS/BBC/GETTY IMAGES; VINCENT KESSLER/REUTERS

◀ and sluggish growth are "the fault of others," says Bruno Cavalier, chief economist at Oddo Securities in Paris. "They blame globalization, foreign competition, Brussels. Le Pen is saying, 'We have a system that has failed. Let's try something radically different.'"

Taking aim at two things widely blamed for slow growth, Fillon has promised to overhaul rigid labor laws and cut the corporate tax rate from 34.4 percent, the highest of any major European economy, to 25 percent. "His program is very realistic, serious for the business community," said Pierre Gattaz, head of French employers association Medef, in a Nov. 28 interview on Bloomberg Radio. Le Pen, though, views the government "as protector of the working population," says Stéphane Henry, a labor lawyer at Paul Hastings in Paris. "Her voters are not the people in the executive suite."

Fillon's next challenge is to reach beyond the 2.9 million disproportionately male, rural, and elderly voters who supported him in the primary, says Bruno Cautrès, a professor at Sciences Po in Paris. Until now there's been no evidence of a popular groundswell for Fillon's remedies. Yet polls suggest he may succeed. A Nov. 29 survey by polling group Kantar Sofres-OnePoint found that Fillon would get as much as 34 percent of the first-round presidential vote in April, with Le Pen at no more than 26 percent, and others, including socialists, environmentalists, and splinter parties, taking the rest. In a runoff, the poll predicted Fillon would beat Le Pen 66 percent to 34 percent. A Nov. 27 survey by Harris Interactive had similar findings, with Fillon beating Le Pen 67 percent to 33 percent in the runoff.

Although the National Front's support has grown steadily in recent years, the party has yet to score an electoral breakthrough. It holds only two of 577 seats in the National Assembly. In regional elections last December, it won more than 27 percent of the vote nationwide but failed to win control of a single region.

One big problem for Le Pen is that many French working-class voters are longtime leftists. Even though they may not like Fillon's free-market economics, they may like the National Front's anti-immigrant, anti-Muslim, and anti-European stances even less. While Le Pen wants to pull out of the EU, surveys show that French support for the union has grown as Britain has suffered political upheaval and a plunging pound after voting to leave. Oddo's Cavalier asks: "Will it really attract the average leftist voter to have this kind of disorganization?" *—Carol Matlack, with Mark Deen and Helene Fouquet*

The bottom line Rhetoric in the French election swings from anti-immigrant to loud calls for fiscal cuts and deep labor reform.

Dealmaking

Russia, Japan, and China Fill the Trade Gap

▶ **As the incoming administration scorns treaties, others move in**

▶ **"People are trying to see where they can get some form" of deal**

The dozen nations in the proposed Trans-Pacific Partnership (TPP) trade group took seven years to hammer out a deal. President-elect Donald Trump promises to take just one day to scrap it. His fiery anti-TPP, anti-Nafta, and anti-Chinese exports rhetoric creates opportunities for rival powers to promote their own trade agenda, says Hussain Rammal, senior lecturer at the University of Technology Sydney Business School. When it comes to global trade, he says, "there is a leadership vacuum."

China is already moving to replace the U.S. as trade champion. "Despite its recent setbacks, globalization remains an irreversible trend of our times," Chinese Premier Li Keqiang said on Nov. 3 at a meeting where he and counterparts from Russia and four Central Asian countries discussed the possibility of a free-trade area. China is in talks to form an Asian trading bloc, the Regional Comprehensive Economic Partnership (RCEP), that would include Australia, India, Japan, South Korea, New Zealand, and the 10 members of the Association of Southeast Asian Nations (ASEAN). The latest round of negotiations is scheduled to take place from Dec. 2 through Dec. 10 near the Indonesian capital of Jakarta.

China is also promoting regional ties via its One Belt, One Road project, which is supposed to improve transportation links with many of its Asian and European trading partners. To help fund such projects, China has started the Asian Infrastructure Investment Bank, a rival to the World Bank in Washington and the Japan-led Asian Development Bank.

The collapse of the TPP would be welcome news for Russian President Vladimir Putin. He's been an outspoken critic of the deal and its cousin, the Transatlantic Trade and Investment Partnership (TTIP), saying they violate the spirit and rules of the World Trade Organization and would frustrate free trade. "If we want to effectively influence global economic processes, there should be no closed associations," he told reporters on Nov. 20, after the Asia-Pacific Economic Cooperation (APEC) summit in Lima.

Yet Putin's government has championed its own version of regional groups, such as the Eurasian Economic Union, a trade bloc it launched last year that includes Armenia, Belarus, Kazakhstan, and Kyrgyzstan. The EAEU is considering 40 free-trade agreements, including initiatives with Singapore and Thailand, board member Tatyana Valvoya told the TASS news agency on Nov. 28. The Russians are interested in linking the EAEU with other Central Asian countries, China, and ASEAN.

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Countries involved in a potential China-dominated trade pact

Among major trading nations, no country has more riding on the success of the TPP than Japan, where Prime Minister Shinzo Abe agreed to difficult concessions on opening the domestic market to more imports of beef, rice, and other agricultural products. On Nov. 21, Abe said the TPP without the U.S. would be meaningless, but the next day his chief cabinet secretary, Yoshihide Suga, said Japan still plans to lobby other

TPP members to ensure it takes effect.

On Nov. 28 the ruling Liberal Democratic Party and its coalition partner agreed to extend by two weeks the current session of parliament, providing enough time for Japanese lawmakers to ratify the agreement. "Japan needs regional free-trade agreements, because a lot of Japanese production capacity is scattered across Southeast Asia," says Takaaki Asano, research fellow at the Tokyo Foundation, a think tank. That diminishes the value to Japan of the country-to-country agreements that Trump wants. "We can't just have bilateral deals," says Asano. "That just worsens the spaghetti-bowl situation."

Abe is hedging his bets. His government is trying to conclude an economic agreement with the European Union. It's also negotiating a trilateral agreement with China and South Korea and is taking part in the RCEP talks. Japan also wants to accelerate trade ties with Mercosur, the South American trading bloc, Abe said on a visit to Buenos Aires on Nov. 21.

Trade optimists say multilateral talks can succeed through the World Trade Organization, the 164-member group that tries to set global rules for trade. The optimism persists even though members haven't been able to reach an agreement in the latest round of negotiations, which began in 2001.

Trump's white-hot anger over the North American Free Trade Agreement and TPP could make some sort of WTO progress easier to achieve, argues Harsha Singh, former WTO deputy director-general, since there will be less pressure to reach a breakthrough, large-scale pact. "Now the focus is on getting a deal," says Singh, currently executive director of Brookings India. Narrower agreements will be possible on issues such as fishery subsidies or boosting the promotion of service industries. "People are trying to see where they can get some form of agreement, because you can't get a comprehensive one," he says.

It's possible that Trump won't walk away from TPP and will instead use his threat to scupper the deal to renegotiate terms that he can argue are better for the U.S. For instance, says Raj Bhala, associate dean for international and comparative law at the University of Kansas School of Law, he could try to get the other members to agree to measures that punish countries for currency manipulation. It's an issue that U.S. senators, including incoming Minority Leader Chuck Schumer of New York and Trump's pick for attorney general, Senator Jeff Sessions of Alabama, called for the U.S. to address during TPP negotiations. "I don't think the TPP is dead," Bhala says. Should the U.S. back out, he adds, the other 11 countries can change the rules to have it take effect without the Americans.

Even if other countries are more active in pushing trade, there's no denying that without the Americans the obstacles are much higher. "No one else is in the position to do what the U.S. does when the U.S. decides to take this role," says Melissa Conley Tyler, national executive director of the Australian Institute of International Affairs, a think tank in Canberra. "There are still countries that want to trade," she adds, but when it comes to taking the lead, "there is a large hole." —*Bruce Einhorn, with Ilya Arkhipov*

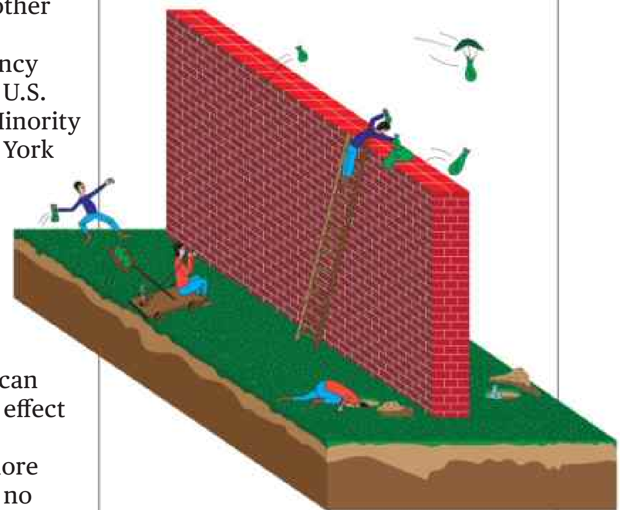
The bottom line Russia, China, and Japan are maneuvering to lock in trade deals now that the U.S. seems likely to shun the TPP.

Capital Flows

No Wall to Stop Migrant Cash From Going South

▶ **Mexicans in the U.S. ponder a return to underground channels**

▶ **"I would risk stuffing money in hidden places"**



Sporting a chunky gold Jesus medallion around his neck and an earring that spells out his name in diamond studs, José discusses the particulars of his shipping business with a reporter during a November meeting in a Brooklyn parking lot. Sitting in his Lincoln Navigator, with his window rolled down, José—who asks that his last name not be printed—says he charges $350 per piece to transport suitcases on flights from New York to Mexican states such as Puebla and Tlaxcala. That's steep, but for some of the 11.7 million Mexicans living in the U.S., it's a more reliable way of sending high-value items (electronics and medicines, for instance) without running the risk that relatives have to ransom a shipment trapped at customs.

José's door-to-door service has its perils: Clients sometimes also stuff gold jewelry or cash inside their luggage, which Mexican customs officers can confiscate. Still, business could boom if President-elect Donald Trump follows through on his campaign threat to block the estimated 6.2 million undocumented Mexican immigrants from sending money home, as a way to force Mexico to foot the bill for his border wall.

Data collected by Mexico's central bank show that remittances are on track to break the $26 billion record from 2007. Banco de México Governor Agustín Carstens in April called Trump's plan to confiscate the money Mexicans send home a violation of property rights. He added that this and the then-candidate's call for renegotiating the North American Free Trade Agreement posed the biggest threats to Mexico's economy.

In a June 15 document, the Trump campaign proposed tightening rules on wire service companies, requiring them to verify that their clients are in the U.S. legally. Experts say such a move would likely drive the business back underground, undoing years of work by U.S. and Mexican authorities to regularize the flow of funds between the two countries. It "would ▶

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stimulate an informal economy for remittances," says Jesús Cervantes of the Center for Latin American Monetary Studies in Mexico City.

According to a 2007 report from the Federal Reserve Bank of Dallas, electronic transfers made up 53 percent of total remittances to Mexico in 1996; by 2006 the figure had jumped to 93 percent. A return to informal channels would complicate the work of law enforcement officials trying to clamp down on money laundering and terrorist financing.

Josefa Torrez, a Mexican immigrant who folds clothes at a laundromat in the Sunset Park section of Brooklyn, says she would do whatever it takes–including using a courier–to keep sending money to her 90-year-old mother in Mexico, who suffers from crippling osteoporosis. "I would risk stuffing money in hidden places," says Torrez, who'd just finished wiring money home from a storefront near her work. "Because we have no choice."

Evangelina Flores says that if she had to she'd go back to stuffing envelopes with cash and sending them from Chicago via registered mail to her elderly sister, the way she did three decades ago, even though the money didn't always make it there. And whenever possible, she'll continue to send money home with relatives, she says.

All of this would be a reversal of progress achieved under another Republican administration. When George W. Bush was in office, the U.S. Federal Reserve began working with Mexico's central bank to ease the flow of remittances from north to south. The effort culminated in the 2005 launch of an automated clearinghouse that enables those with an account at a U.S. bank or credit union to make direct transfers. This, along with the proliferation of debit and credit cards, has reduced transaction costs for both senders and recipients.

Alely, a stay-at-home mom who asked that her last name not be used because she isn't a legal resident, is trying to open a bank account in New York to bypass any Trump-imposed restrictions. She's been working to get the paperwork she needs through the Mexican consulate. (Immediately after the election, Mexico's Foreign Ministry drew up a plan that enlists the country's 50 consulates in the U.S. to monitor and prevent abuses against immigrants.) When it comes to sending money back home, "I think we will always find a way," Alely says. —*Nacha Cattan and Isabella Cota*

The bottom line Mexicans living in the U.S. are fearful Trump will make good on a threat to block money transfers to relatives south of the border.

China

Big-Data Gurus See What the Cadres Don't

▶ **Giants such as Baidu and Alibaba create their own economic gauges**

▶ **"Will the government allow this to flourish?"**

Wu Haishan was at Princeton studying how schools of fish swim together when the crowd behavior of a much bigger group grabbed his attention: his 1.35 billion fellow Chinese.

It was Lunar New Year back home in 2014, and **Baidu**, operator of the country's biggest search engine, had created an animation showing all the trips the Chinese had made during the holiday, which demographers say is the largest annual human migration anywhere. Wu, who'd seen the animation, soon joined Baidu as a data scientist in Beijing. With the company's vast amounts of user location information, he's come up with ingenious ways to measure economic activity.

Big-data gurus such as Wu are providing a sharper picture of China's economy than government statistics, which can be twisted to fit the state's agenda or remain frustratingly incomplete. "We were running around pointing a flashlight at various things like labor or ports," says Jeffrey Towson, a professor of investment at Guanghua School of Management at Peking University. "This new information is like turning on the lights, and you see everything."

6b

Web searches handled each day by Baidu, China's biggest search engine

Baidu handles 6 billion searches a day and dominates mobile mapping. The data show, for example, how many people visit Apple's Chinese stores, which can signal interest in the next iPhone. Wu used the search and map data to find so-called ghost cities–where dozens of new apartment and commercial buildings stand empty–betrayed by a lack of mobile phone activity. He and his team have devised gauges of mall traffic, tourism, and industrial and high-tech employment.

"We didn't know if there was any commercial value," Wu says at Baidu's campus in northwest Beijing. It didn't take long to find out: Institutional investors quickly discovered Wu's gauges after they were released in June. Baidu has rivals as well. **Alibaba** reported 3.1 trillion yuan ($450 billion) of online shopping in the last fiscal year, almost equal to Sweden's gross domestic product. Cheng Xin, who works at Alibaba's research arm, is developing a measure of the overall economy based on readings from its Taobao e-commerce platform and data it buys from other companies, such as transaction figures from **Soufun.com**, China's biggest real estate web portal.

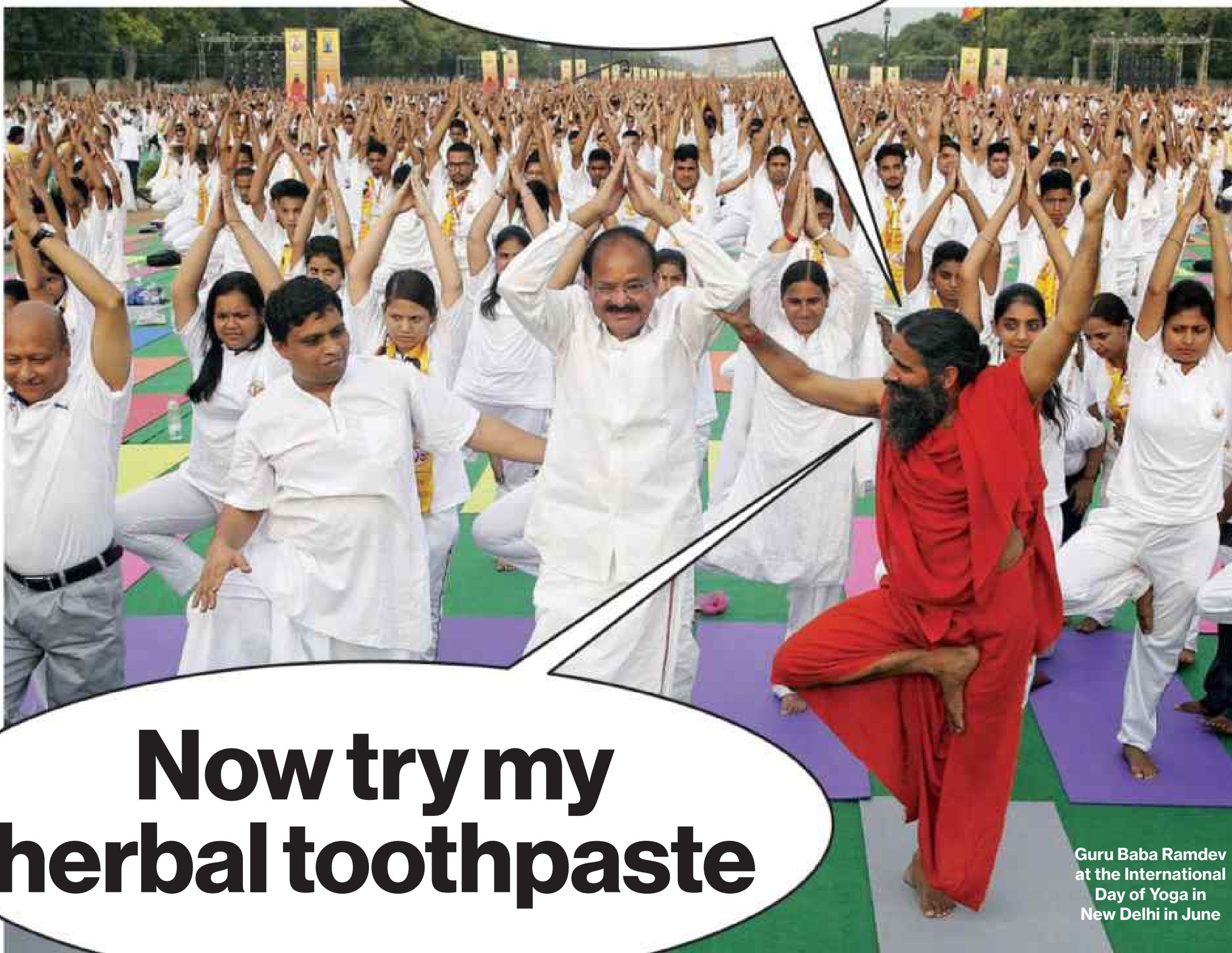
Wang Zhanwei, a data analyst at **Didi Chuxing**, China's answer to Uber, says such information can benefit the government. His team plans to mine its ride-hailing data to figure out consumer spending by tracking how often people visit such places as malls, movie theaters, and karaoke bars. "Governments may plan cities better when they know more about how people commute," Wang says.

Officials are paying attention. "We welcome and are open to big data," says Sheng Laiyun, a National Bureau of Statistics spokesman, adding that the agency includes some of the data in tracking retail sales, consumer inflation, and home prices. So far, the new gauges mostly verify official statistics, according to Bloomberg Intelligence economists Tom Orlik and Justin Jimenez, who compared the statistics bureau's numbers with private counterparts. "Will the government allow this to flourish?" asks Andrew Polk, head of China research at Medley Global Advisors in Beijing. "If they start showing things starkly at odds with official data, that'll be a real test." —*Bloomberg News*

The bottom line Companies are using big data to give a fuller picture of China's economic life, including mall traffic and tourism.

Edited by Christopher Power and Cristina Lindblad
Bloomberg.com

Namaste



Now try my herbal toothpaste

Guru Baba Ramdev at the International Day of Yoga in New Delhi in June

▶ **Local gurus are launching personal care brands, stealing share from big Western companies**

▶ **"All tie-wearing people are sweating. They realize loincloth-wearing people can do many things"**

They have bushy beards, a preference for loosefitting robes, millions of devotees—and a line of consumer products. Meet the Indian gurus behind the brands challenging some of the planet's biggest companies. Baba Ramdev, Ravi Shankar, Gurmeet Ram Rahim Singh, and Jaggi Vasudev are among yoga and spiritual leaders lending their names to everything from honey and herbal remedies to toothpaste and clothes. With a ready-made clientele from their vast followers, they're taking on the likes of **Unilever**, **Colgate-Palmolive**, and **GlaxoSmithKline** in India by tapping surging demand for natural and herbal medicine-based products.

The gurus' products comply with ayurvedic medicine, which is based on a belief that health and wellness depend on a balance of mind, body, and spirit and can include the use of herbal compounds and special diets. The newcomers are snatching market share from larger established suppliers, who've had to develop their own ayurvedic lines.

The guru-connected upstarts have already shaken the market. Unilever's hold on India's $11.7 billion beauty and personal care market slipped more than 5 percentage points, from 32.9 percent in 2010 to 27.8 percent in 2015, according to researcher Euromonitor International. And local personal care rival **Dabur India** says its growth is slowing, even as the market is forecast to expand 14 percent in 2016.

"These ayurvedic product sellers are posing a threat to Indian and global players as the product has gained mass appeal," says Sanjiv Bhasin, an executive vice president at brokerage IIFL Holdings. Profit margins are shrinking in response, he says: "It has made the existing players enlarge their ▶

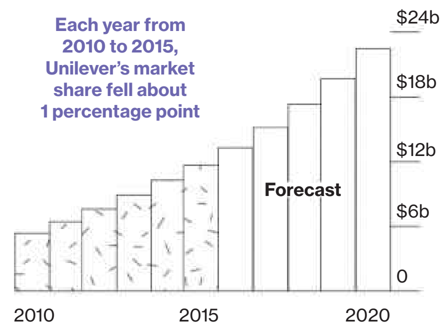
Patanjali Dant Kanti toothpaste, one of the herbal items made by guru Ramdev's ayurvedic products company, is making big inroads against mainstream brands in India

NAIDU: RAJAT GUPTA/EPA/ALAMY

Picking up products at a Patanjali retail store in Haryana

Big Growth Is Helping Newbies Thrive

Value of India's beauty and personal care market



marketing budgets greatly to try and protect their turf."

The biggest new competitor is yoga guru Baba Ramdev's **Patanjali Ayurved**, which offers some 500 products spanning food, nutrition, beauty, and personal care. Formed a decade ago, its revenue will at least double, to more than 100 billion rupees ($1.5 billion), in the year ending March 2017, Ramdev said in November, adding that all Patanjali profits go to charity.

Ramdev says he's an "unpaid ambassador" at Patanjali and that childhood friend Acharya Balkrishna holds 97 percent of the company's shares. That helped make Balkrishna India's 48th-richest person, worth $2.5 billion, according to *Forbes*.

"World-class quality, low price, and giving away [our] entire profit to charity are the three main reasons for the boom seen in Patanjali products," says Ramdev, clad in his trademark saffron-colored robe during an interview in New Delhi. Executives at multinational companies believe *babas*, or holy men, like him "don't know anything," he says. "Now all tie-wearing people are sweating. They realize loincloth-wearing people can do many things."

Patanjali had a 1.2 percent share of India's beauty and personal care market last year, up from 0.2 percent in 2011, according to Euromonitor. The company plans to sell refined oil, milk, and textiles, mostly to counter the dominance of foreign-owned businesses, Ramdev says. "Why shouldn't our country's money stay here and be used for this country's service?" he says.

Unilever, which first sold soap in India in 1888, has said domestic brands such as Patanjali have been better than multinationals at picking up on local trends. Patanjali is a company "which everybody has been following with a lot of interest—incredible branding created there," Unilever Chief Financial Officer Graeme Pitkethly said on an Oct. 13 conference call to discuss third-quarter sales.

The Anglo-Dutch giant has countered with Hamam soap, which incorporates ayurvedic herbs, and its local unit bought hair care brand Indulekha last December to add a line of hair oil made from only natural ingredients.

Patanjali expects to have 500 billion rupees in revenue within the next three years, Ramdev says. India Infoline says the company could grab 35 percent of both the Indian honey and ayurvedic medicine markets and a third of the market for ghee, a type of clarified butter. Colgate-Palmolive and Dabur would be hurt the most by Patanjali's expansion, India Infoline says.

Ayurveda, as practiced in India, is one of the oldest systems of medicine in the world. "In India, the consumer believes strongly in natural ingredients," Bina Thompson, Colgate-Palmolive's chief investor relations officer, told analysts on a July 28 conference call. Colgate has introduced toothpastes with neem, an evergreen medicinal herb, and clove essence and recently began selling a charcoal-infused toothbrush and Colgate Cibaca Vedshakti, which contains natural ingredients including eucalyptus, basil, and camphor. "The positioning is a toothpaste packed with the goodness of natural ingredients to help keep dental problems away," Thompson said.

In October, Dabur India Chief Executive Officer Sunil Duggal described Patanjali's Dant Kanti toothpaste, which vies with Dabur's Red brand, as a "fairly formidable player." A 200-gram pack of Dant Kanti goes for 75 rupees in India on online shopping portal Bigbasket.com. That compares with 74.80 rupees for the same amount of Dabur Red and 97 rupees for Colgate's Active Salt with neem. "Patanjali has made an impact, and we need to counter that," Duggal said on an Oct. 26 analyst call. "We are not growing as fast as we could."

Sales at Patanjali have jumped more than tenfold in the past four years as it expanded the number of retail stores selling only its own products to almost 10,000 nationwide, building on a franchise system created for its existing yoga outlets. "This has seen [Ramdev] save on ad expenses and marketing costs compared to larger players," says Infoline's Bhasin. And land around the yoga ashrams Ramdev has established will "give him enough room to expand for the next three years."

Following Patanjali's "spectacular" success, Edelweiss Financial Services expects other spiritual gurus, including Sri Sri Ravi Shankar, Guru Ram Rahim Singh, and Sadhguru Jaggi Vasudev, "to go the Patanjali way," analyst Abneesh Roy and colleagues said in a report in March.

Sant Shri Asaramji Ashram, Sri Aurobindo Ashram, and BAPS Swaminarayan Sanstha are other organizations that not only cater to the spiritual needs of millions of followers but are also emerging as suppliers of fast-moving consumer goods, according to Edelweiss. Shankar's Sri Sri Ayurveda in particular is showing "renewed aggression" as it rides on the brand equity of its founder, whose "Art of Living" movement has 370 million

FROM LEFT: UDIT KULSHRESTHA/BLOOMBERG; QILAI SHEN/BLOOMBERG. CAR DATA: IHS AUTOMOTIVE

followers worldwide, it says.

Sri Sri Ayurveda is beginning to use mass media, point-of-sale advertising, and online retailing. In October the group began selling a range of ayurvedic health drinks under the Ojasvita brand and signed Olympic silver medalist P.V. Sindhu to help promote it in a market dominated by GlaxoSmithKline's Horlicks brand. "I foresee requirements for pan-India exclusive stores," says Tej Katpitia, the company's chief marketing officer.

Shreyansh Kocheri, an analyst at Euromonitor, says Ramdev's and Shankar's products are benefiting from Prime Minister Narendra Modi's "Make in India" campaign and also trust in their products. "Consumers have immense trust in both these personalities and hence perceive their products to be of good quality," Kocheri says. "Consumers are increasingly becoming cautious of the products they consume or apply on their skin. They are on the lookout for natural, herbal, and ayurvedic products which they perceive to be healthy and not have any side effects." —*P R Sanjai and Bibhudatta Pradhan*

The bottom line Brands tied to local gurus are grabbing a growing piece of India's $11.7 billion annual beauty and personal care market.

Autos

Cheap's No Longer Chic For China's Carmakers

▶ **They're going upscale to grab sales from foreign companies**

▶ **Ending "the era of excessive profits earned by foreign brands"**

For years, China's auto industry followed a simple rule: make basic models aimed at people looking for inexpensive transportation, and let foreign brands target drivers able to spend more on quality and status. As more consumers aspire to vehicles with cachet, domestic carmakers want to shed their reputations as suppliers of mass-market rides and go upscale with them.

So **Great Wall Motor**, **Geely Automobile Holdings**, and **Qoros Auto** are unveiling premium brands they want drivers to consider in the same league as **Toyota Motor**'s Lexus luxury nameplate or **Hyundai Motor**'s upscale Genesis line. With passenger auto sales in China rising more than 15 percent in the first 10 months of 2016 over the year-earlier period, local manufacturers don't want to cede the higher-end customers—and fatter profits they bring—to foreign brands. "Chinese automakers today are at a stage where they believe it's necessary to move upmarket," says Zhou Jincheng, an analyst at Fourin in Nagoya, Japan. "If they don't try now while the market is growing, it will be even harder to start when the market is stagnant."

Urban Chinese consumers show more of a preference for luxury brands than car buyers in the U.S. and Europe, according to LMC Automotive Consulting in Shanghai. About a quarter of all new cars sold in Beijing, Shanghai, Guangzhou, and Shenzhen are premium brands, compared with 16 percent in Germany and 14 percent in the U.S., says John Zeng, LMC's managing director. The best-selling premium-priced car in China is **Volkswagen**'s Audi line, priced from 184,900 yuan ($26,738). Low-end Chinese brands can cost less than one-third of that.

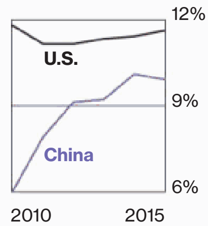
The mainland's hunger for luxe rides results in part from higher incomes—for the nine months through September, disposable income rose 6.3 percent above a year earlier, to 17,735.40 yuan per person—and in part from China's rules of the road. Major cities have imposed ownership restrictions to ease traffic congestion, and that's led consumers to buy the best model they could afford because it's often the only car they can have.

Billionaire Wei Jianjun built Great Wall into China's largest SUV maker by pricing vehicles at a fraction of comparable foreign models such as Volkswagen's popular Tiguan SUV. The best-selling SUV in China is Great Wall's Haval 6, priced from 88,800 yuan. Its sales almost doubled in the first 10 months of 2016 from the same period last year.

Over the past four years, Wei has spent 10 billion yuan creating a premium brand called Wey—a phonetic spelling of his surname. At the Guangzhou Auto Show in November, he unveiled three Wey-branded SUVs—starting at 150,000 yuan—with features usually found in more expensive foreign models, such as a warning system for lane changes and a cruise control that maintains a safe distance from the car ahead. "Wey's mission is to carry the flag for Chinese luxury SUVs globally and to end the era of excessive profits earned by foreign brands in China," says Wei, whose new brand is expected to hit showrooms as early as April. "The luxury Wey stands for is not unattainable."

Fellow billionaire Li Shufu, who controls mass-market Geely, is introducing an upscale spinoff brand, **Lynk & Co**. The cars will be built in China on the same platform used by Li's other company, **Volvo Cars**, and will be sold globally. Lynk will start sales in the second half of next year, says Gui Shengyue, Geely's chief executive officer. The cars will be electric and connect to the Internet through technology developed with **Microsoft** and **Alibaba Group**.

Premium cars' share of autos sold



Prices for Li's upmarket cars haven't been announced yet, but they're sure to be far above the 29,999 yuan for the no-frills sedan Geely introduced in 2004. And the Wey brand's billionaire pedigree and the hiring of a CEO who had been an executive at Audi and designers from **BMW** and **Alfa Romeo** could help it succeed among quality-conscious buyers. Introducing more marques can help carmakers eliminate the baggage of the past and persuade customers to pay higher prices, says Stephen Dyer, a Shanghai-based partner at consultant Bain who oversees its China auto market practice. "It may be helpful to emphasize that though the brand is Chinese-owned, it relies on global resources, so it's not a 'Chinese car' per se," he says.

Yale Zhang, managing director at researcher Automotive Foresight (Shanghai), says that China car buyers will expect some distinctions from familiar local lines. "A ▶

new brand is a must," he says. "The demographic group for cars around 200,000 yuan won't accept a nameplate that reminds you of a model priced at 30,000 yuan."

Even with vehicles sporting cutting-edge features, the new brands still have to contend with China consumers' beliefs that domestic automakers are still novices at premium cars. Gavin Li, 26, browsed the Wey models at the Guangzhou show, not far from **Nissan**'s Infiniti display. "It still doesn't have the same texture as foreign brands do," he said. "I'd still rather buy a Nissan Teana, since Nissan has a history of making cars longer than Great Wall does." —*Bloomberg News*

The bottom line About a quarter of all cars sold in China's biggest cities are premium models. So its local car companies are launching luxe brands.

Video

Hulu Reboots for A Post-Cable Age

▶ **The streaming service is adding live television to counter Netflix**

▶ **A "growing pool of people… never paying for TV or cutting the cord"**

When NBC and Fox created **Hulu** 10 years ago, they offered customers something they'd never had before: last night's TV shows available over the internet for free. It presaged the future of TV—online and on-demand, no VCR or DVR required. By the time Mike Hopkins took over as Hulu's chief executive officer in 2013, that early advantage had been mostly squandered. **Netflix** was laying the groundwork for a global TV network, and **Amazon.com** was about to release a slate of video programs. Both companies' strategies have proved successful and allowed them to grow larger streaming subscriber bases than Hulu.

Now Hopkins hopes his company—owned by **Comcast**, **21st Century Fox**, **Walt Disney**, and **Time Warner**—can again lead the industry by becoming the first streaming service to couple live TV with a wide library of on-demand programs that goes beyond what traditional cable offers. "A lot of people are talking about Hulu," says Hopkins, "but this puts us in a different category."

Most programs—dramas, comedies, reality shows, movies—can be viewed at any time, and some are better when binge-watched. But some programming is better live—particularly sports, breaking news coverage, and events such as the Oscars. Netflix has said a service that combines live and on-demand content, if done well, would be its biggest competitive threat.

Hulu plans to sell a package of live TV channels within its streaming app early next year and has spent much of the past few months trying to close deals with its partners. The service has announced agreements with Disney, Fox, and Time Warner and is negotiating with **CBS** and NBCUniversal, owners of the two most-watched networks in the U.S.

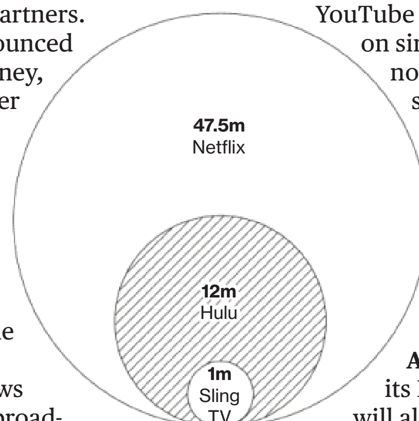
If everything goes according to plan, the package will include major sports and news networks as well as broadcast and general entertainment cable networks. Local broadcast affiliates are also likely to be part of the offering. Hulu's user interface would let viewers hop easily between last week's episode of *Empire* and a football game already in progress, a process that can require several steps with conventional cable TV.

Hulu has often struggled to set itself apart, and its business model has morphed a few times, from free to paid and from ad-supported to ad-free, at least for some subscribers. While Netflix or Amazon benefits by showing previous seasons of shows that have already appeared on TV networks, Hulu also offers some shows as soon as a day after they've aired. By adding live TV channels to the mix, it could provide an alternative for people who don't want cable.

Hopkins says Hulu isn't trying to steal cable operators' customers. Yet the trends are indisputable. The U.S. pay-TV industry lost 340,000 subscribers in the third quarter, a 35 percent greater decline than a year earlier, according to Bloomberg Intelligence. ESPN, the most widely watched network in most years, has 90 million subscribers through cable and satellite, the lowest number since 2005, according to Nielsen data. "There's definitely this growing pool of people either never paying for TV or cutting the cord," Hopkins says.

TV Tussle

U.S. subscribers to streaming video services



Hulu isn't the only company eager to capitalize on that trend. A host of live-TV streaming services are cropping up online. **Dish Network**'s Sling TV and **Sony**'s PlayStation Vue already offer cable-like packages over the internet. Amazon and **Google**'s YouTube have been working on similar plans. Thus far none has been a major success; the biggest, Sling, has about a million subscribers, according to Parks Associates.

The competitive landscape could change quickly, however. On Nov. 28, **AT&T** announced that its DirecTV Now service will allow AT&T's phone and tablet customers, along with owners of web-enabled TV sets, to get 60-plus channels for as little as $35 a month. The lineup includes major broadcast and cable outlets, but won't initially include CBS or Showtime, one of the most popular premium channels. Both channels are owned by CBS Corp., the only major entertainment company not to reach a deal with AT&T for the service.

Hulu won't differentiate itself with specific channels, since all the services will eventually offer similar packages of programming for comparable prices, Hopkins says. Instead, the company can set itself apart by creating "an easy process to getting to the shows and sports and news you want to see," he says.

Hulu hasn't announced any details about pricing or the composition of its new programming bundle. Part of the challenge for Hopkins will be offering a compelling price while still squeezing out a profit. The company

SUBSCRIBER FIGURES ARE MOST RECENT AVAILABLE; DATA: NETFLIX, HULU, PARKS ASSOCIATES

will lose $400 million to $500 million this year, according to investment bank Evercore, and losses next year will likely surpass $500 million. Hulu has spent heavily to amass an entertainment library that spans original dramas such as *11/22/63* and *The Path*, reruns of *Seinfeld*, and last night's TV shows. "I'm not 100 percent sure what their endgame is," says Jim O'Neill, an analyst with online video analytics firm Ooyala. "They are a little bit vague with their strategy."

Yet the strategy for Hulu's corporate owners is clear. Cord-cutting is a direct threat to sales and profits of the cable networks owned by Disney, Fox, Comcast, and Time Warner. Hulu offers them a hedge against the new world of online TV–and a model for deals with pay-TV partners. "We're not targeting pay-TV customers to switch," Hopkins says. But for the people who are going to shut off cable anyway? "We'll be there." —*Lucas Shaw*

The bottom line The U.S. pay-TV industry lost 340,000 subscribers in the third quarter. Hulu is adding live TV to its streaming to woo defectors.

Media

Breitbart Advertisers Take Political Fire, Too

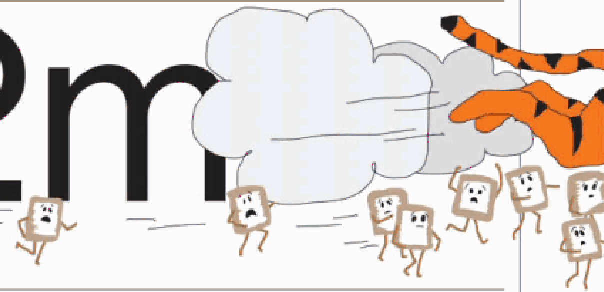
▶ **Kellogg is the latest marketer to ditch the controversial website**

▶ **Avoiding "sites that aren't aligned with our values as a company"**

Most companies work hard not to anger customers. That's one reason that running ads on **Breitbart News Network**'s website has become problematic for some marketers. The right-wing news organization's profile has risen since its former executive chairman, Steve Bannon, joined President-elect Donald Trump's campaign and has now been tapped to be White House chief strategist. The site's been widely criticized for incendiary articles, such as one that warns of "Muslim invaders" and another that dubs conservative thinker Bill Kristol a "Renegade Jew." Women–a prime target for advertisers–sometimes fare little better. A headline offered females this fix for online harassment: "Women should log off." Another blared, "There's no bias against women in Tech. They just suck at interviews."

19.2m

Number of unique monthly visitors to brietbart.com, up from 12.9 million a year ago



Brands that advertise on Breitbart have drawn flak in recent weeks, with activists saying the website espouses racist, anti-Semitic, and misogynistic views. That's spurred some companies to abandon the site. The latest to pull its ads is **Kellogg**, which in late November said it had decided to "blacklist" Breitbart after being contacted by customers who saw ads for Frosted Flakes and Frosted Mini Wheats on the site, says spokeswoman Kris Charles. "We regularly work with our media-buying partners to ensure our ads do not appear on sites that aren't aligned with our values as a company," she says. "We recently reviewed the list of sites where our ads can be placed and decided to discontinue advertising on breitbart.com."

Earlier in November, **AppNexus**, one of the biggest digital advertising services, barred Breitbart from being served ads from its automated online tools that place them on web pages, because the website had breached a policy against content that incites violence, says an AppNexus spokesman. Kellogg declined to name the company that places its digital ads.

These days, more customers favor brands that line up with their political and personal values, and they use social media as a megaphone to incite protests and boycotts. "There's intense pressure on the brands to get their story out–but they're also responsible for where it goes," says Allen Adamson, former North American chairman of branding firm Landor Associates. "It's made it a minefield for marketers."

A spokeswoman for Breitbart didn't respond to a request for comment, but the site has called for a boycott of Kellogg. Breitbart News Network Chief Executive Officer Larry Solov said in an e-mailed statement to Bloomberg in November that Breitbart "has always and continues to condemn racism and bigotry in any form."

The site had 19.2 million unique monthly U.S. visitors in October, up from 12.9 million a year earlier, according to ComScore. Many marketers buy online advertising through third-party tech companies that distribute them widely across the internet, so they may not be aware of all the websites where their ads appear. But companies can control which ones display their ads. So the creator of the Twitter account Sleeping Giants has been taking screen shots of ads appearing on Breitbart to pressure those companies to take their ads down.

Allstate, **Nest Labs**, **EarthLink**, **Warby Parker**, and **SoFi** have also barred Breitbart from showing their ads, according to Digiday. There's one player that would likely have a bigger impact on Breitbart: **Google**. Its DoubleClick service, the leader in digital display advertising, still places ads on the website. That's despite Google rules barring its ads from running next to "harassing or bullying content" and "content that incites or advocates for harm against an individual or group." A spokeswoman for Google declined to comment.

Not all brands are avoiding Breitbart. After a screen shot distributed by critics showed a **Nissan** ad on the site, the carmaker said in a statement that it "places ads in a variety of sites in order to reach as many consumers as possible. The placement of Nissan advertising is not intended to be a political commentary and there are no plans to change the advertising mix at this time." —*Craig Giammona and Gerry Smith*

The bottom line Visitors to breitbart.com have surged, but some advertisers are shunning it, citing offensive content.

Edited by James E. Ellis
Bloomberg.com

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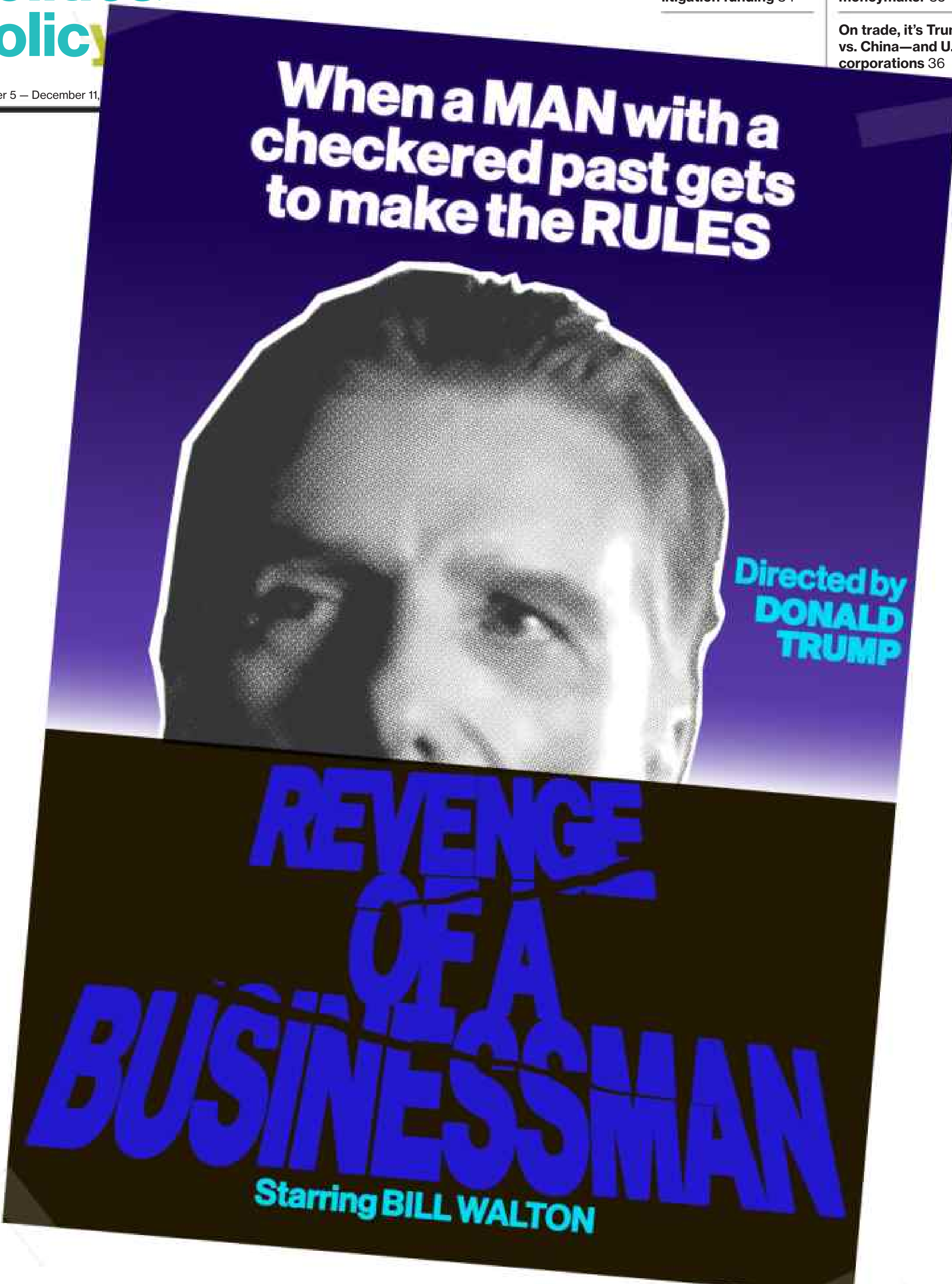


▶ **Trump's transition team includes a Washington financier whose deals ran into legal trouble**

▶ **"This is filling the swamp, not draining it"**

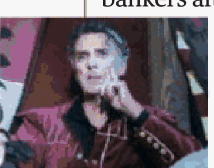
PHOTO ILLUSTRATION BY 731; PHOTO: VIMEO

Stills from Walton's films

In the early 2000s, Bill Walton was at the top of Washington's finance establishment. He ran **Allied Capital** and sat on the board of **Riggs Bank**'s parent company. Then the trouble began. Hedge fund manager David Einhorn accused Allied in 2002 of inflating the value of its holdings, sparking a legal fight that lasted years. An Allied subsidiary that lent to small businesses agreed to settle fraud claims with the U.S. Department of Justice for $26.3 million in 2010; an executive went to prison; and Allied, hobbled by the financial crisis, was sold. So was Riggs, after it was fined $16 million for helping former Chilean dictator Augusto Pinochet and Equatorial Guinea officials hide funds. A judge called the bank "a greedy corporate henchman."

Walton, who wasn't accused of wrongdoing, mostly stayed under the radar after that. He founded a private equity firm, **Rappahannock Ventures**, that's invested in medical technology companies working on antimicrobial textiles and tissue regeneration. Rappahannock lists Walton's wife and their terriers on its leadership page. He's also dabbled in film, producing the Jerry Lewis vehicle *Max Rose*, and taken some roles himself.

That's changed since Donald Trump's election. Now, Walton is co-head of the president-elect's team focused on economic issues for federal agencies. The appointment shows just how comfortable Trump is giving influence to bankers after denouncing them in his campaign. It puts Walton back in the spotlight, offering him a chance to help shape the way the government interacts with the finance industry. "Regulators possess a great deal of unilateral and, too often, arbitrary power," Walton says. "So in addition to Mr. Trump's call to reduce the number of regulations, I believe we need to rethink how the regulatory process should work."



Walton is running his transition group with David Malpass, chief economist at Bear Stearns until its 2008 collapse. They oversee teams that receive briefings from officials in the Treasury and Commerce departments and then report to the Trump administration as it develops policy and picks staff. Their purview also includes the Small Business Administration (SBA), which backed Allied's loans, and the U.S. Securities and Exchange Commission, which said the firm lacked procedures to ensure its holdings were valued properly. Allied settled with the SEC in 2007 without paying a fine or admitting or denying the findings. "I voted for Trump, saw that, and was shocked," says Jim Brickman, an Allied critic who filed a lawsuit against the company in 2004, of Walton's appointment. "This is filling the swamp, not draining it."

In 2002 fund manager Einhorn accused Allied of not properly recording the market value of investments in privately held firms and high-yield bonds. The company denied wrongdoing, saying Einhorn and other short sellers were out to scare "little old ladies" who owned Allied's stock. Justice Department prosecutors subpoenaed Allied in late 2006 over its use of private investigators, after Einhorn said a woman impersonated his wife to get his phone records. Allied said in 2007 "an agent of the company" obtained the records without company management knowing about it. Einhorn, who wrote the 2008 book *Fooling Some of the People All of the Time* about Allied, declined to comment.

In 2008 a former executive vice president at Allied's subsidiary, Business Loan Express, was sentenced to 10 years for what prosecutors called the largest single fraud in SBA history. In October 2009, Allied agreed to sell itself to Ares Capital. PNC Financial Services bought Riggs in 2005, after Riggs pleaded guilty to failing to report transactions in secret accounts held by Pinochet, as well as by officials in Equatorial Guinea, whose balances and loans totaled almost $700 million by 2003. Walton joined the board of bank parent Riggs National in 1999.

Walton, 67, graduated with an MBA in 1977 from Indiana University's Kelley School of Business. He became an investment adviser to William Paley of CBS and worked at Lehman Brothers, according to his website.

A reel of his acting work shows him dabbling in a variety of genres. They include a steampunk Western, which filmmakers are seeking to develop into a full-length feature. In a fantasy project, he plays a king who reminisces about battles of yore. In an unfinished film he plays a magnate whose wife will apparently be cured by a gene taken from the blood of a little girl.

Walton has been active in conservative groups. He's a vice president of the nonprofit Council for National Policy, which seeks to shrink the government. He told a gathering against gay marriage in May 2015 that Christianity, the family, the Boy Scouts, and the military were victims of "systematic deconstruction." In a column on Fox News's website a few months later, he said the U.S. Supreme Court's recognition of same-sex marriage "strikes a dagger in the heart of our freedom to work and live in accordance with our beliefs." He's a trustee of the Heritage Foundation, where his peers include heiress Rebekah Mercer, a member of Trump's transition team whose father is Robert Mercer, co-chief executive officer of Renaissance Technologies.

Stephen Moore, a member of Trump's economic advisory council, has recommended that Walton be made commissioner of the IRS. Walton said in a speech last year that the U.S. "should get rid of the corporate tax altogether." That doesn't bother Moore. "I think he would be fantastic," he says. "He's a take-no-prisoners kind of guy." *—Max Abelson, with David Voreacos*

The bottom line Years after battling the SEC and the DOJ, Bill Walton returns to power in Washington as part of Trump's economic transition team.

Litigation

This Lawsuit Is Brought To You by Our Sponsors

▶ **Judges in California want plaintiffs to disclose funders**

▶ **It's "a little like the *Good Housekeeping* seal of approval"**

Bankrolling other people's court fights dates to the Dark Ages, when it was a favorite tactic of noblemen who wanted to harass their enemies. In recent years litigation funding has become a multibillion-dollar industry as investors

PHOTOS: VIMEO; DATA: U.S. DEPARTMENT OF ENERGY

have quietly fronted the costs of civil suits in exchange for a piece of any eventual monetary awards. The billionaire investor Peter Thiel turned the practice into a tool of revenge this year, surreptitiously paying for pro wrestler Hulk Hogan's privacy suit against the website **Gawker**, which published a Hogan sex tape. The case went to trial and ended with a $140 million jury verdict that pushed the site into bankruptcy. Thiel subsequently said he got involved because of a 2007 Gawker story outing him as gay.

Federal judges in California may be about to deal the business a serious blow. In June the rules committee of the U.S. District Court in San Francisco proposed that any party to a lawsuit filed in the jurisdiction would have to disclose any financial support from third-party sources known as litigation funders. The next step is for the full court to consider the question.

The U.S. Chamber of Commerce, which has called litigation funding a grave threat to the civil justice system, and other pro-business advocates contend that letting judges, lawyers, and parties know who's footing the bill will help avoid hidden conflicts of interest or frivolous suits. Disclosure will "aid in the identification of potential ethical issues and thereby protect the integrity of the judicial process," the chamber's Institute for Legal Reform said in 2014.

The loosely regulated funding industry came under scrutiny after U.K.-based funder **Burford Capital** and other litigation financiers helped plaintiffs win a multibillion-dollar judgment against **Chevron** in an Ecuadorean court. The oil giant convinced a judge in New York in 2014 that the case was the product of a racketeering conspiracy involving bribery, coercion, and fabricated evidence. Burford wasn't implicated in the wrongdoing.

That same year, the Judicial Conference of the United States' advisory committee on civil rules considered—then tabled—a similar proposal for the federal court system across the country. The committee concluded that the practice of institutional third-party funding was relatively new and evolving, so "an attempt to craft rules now would be premature." It considered and again tabled the proposal this year.

In 2015 the U.S. Senate Committee on the Judiciary opened an inquiry into the "alarming" expansion of "litigation speculation" and asked Burford and another financier, **IMF Bentham**, to furnish a list of all the cases they had backed over a six-year period. Burford responded in a 12-page letter saying it entered into 83 investments from 2009 through 2014, mostly in U.S. cases, while declining to provide specifics because "we are not free to disclose clients' information."

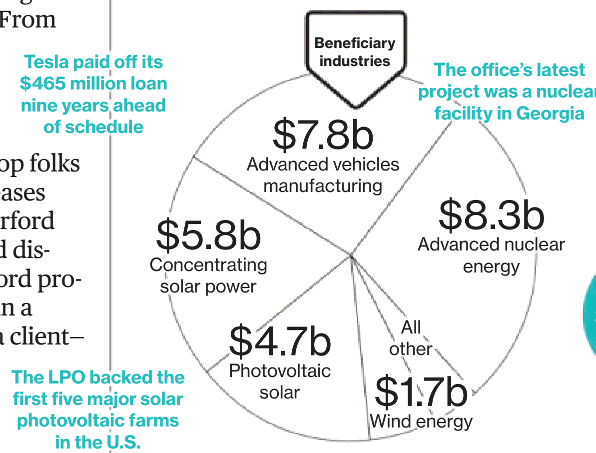
In written comments on the proposed rule change in San Francisco, Bentham and Burford contend that once outside funding is revealed, adversaries will try to pry deeper into confidential communications, resulting in expensive pretrial sideshows. "From a legal perspective it's rarely if ever relevant to the case," says Bentham investment manager and legal counsel Matt Harrison. "That doesn't stop folks from trying to dig in. That increases costs for us and our clients." Burford says the rule is unnecessary and discriminatory. "Burford is on record providing as much as $100 million in a single financing transaction to a client—collateralized by dozens of separate litigation matters," the company said in an e-mail. "Managing disclosure obligations in such a complex and rapidly evolving area will add complexity and delay to the judicial process."

At least one newly created funding firm says it favors disclosure. **Legalist** opened in Boston and San Francisco this summer after co-founder Eva Shang won a $100,000 prize from the Thiel Foundation to get her startup off the ground. The firm is focused on helping small-business owners pursue cases but relies on the same data-heavy analytic approach larger litigation funders use to determine which cases to take. "Our ultimate goal is for transparency in the industry and greater awareness so that every small business, every grocery store, knows that litigation funding is an option," says Shang, who has no continuing affiliation with Thiel. A spokesman for Thiel didn't respond to a request for comment.

University of California at Los Angeles legal historian Stephen Yeazell says greater transparency might work to funded parties' advantage by encouraging defendants to settle without ▶

Energy Loans

The U.S. Department of Energy's Loan Programs Office is best-known for backing a $535 million credit to solar manufacturer Solyndra before it went bankrupt. But the LPO has generated about $1.65b in interest payments for the federal government



and is expected to bring in at least $5b on its existing portfolio, even with losses from bets that didn't pay off. Created under President George W. Bush, the LPO still has about $40b available from Congress. It would take a vote to shut it down, but the energy secretary must approve new loans—meaning the Trump administration could stifle it by refusing to sign off on applications. *—Brian Eckhouse and Eric Roston*

◀ protracted court battles. Having outside investors backing a suit is "a little like the *Good Housekeeping* seal of approval," he says. Most cases, he says, are not like the Hogan suit: "What the third-party funders want is meritorious litigation with a large number of zeros at the end." —*Peter Blumberg*

The bottom line Litigation funders may face disclosure requirements under a rule proposed by federal judges in San Francisco.

International Relations

Trump's Trade War With...Boeing?

▶ **U.S. companies prepare to defend their Chinese interests**

▶ **"Nobody gets to set the agenda unilaterally around here"**

If President-elect Donald Trump delivers on his repeated campaign pledges to get tough with China on trade, a powerful group of adversaries will likely line up against him: American multinational corporations. These companies have more than $228 billion at stake in the event of a trade conflict between the world's two biggest economies.

The track record of such corporations pushing back against Washington on trade indicates they'll back their own interests–and thus China's–if enmity erupts. "There will be a strong lobbying effort by American businesses, and the markets will also wake Trump up," says James McGregor, author of the 2012 book *No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism*, who lives in Shanghai. "If the stock market sees that **Boeing**, the auto companies, the technology companies, the agricultural conglomerates are all going to be severely hit by this, they are going to take a big tumble."

The U.S. Chamber of Commerce and other pro-trade groups have influential allies among Republican leaders in Congress. "My state is the No. 1 exporting state in the nation, and not coincidentally our economy tends to be doing better than a lot of the rest of the country," John Cornyn of Texas, the No. 2 Senate Republican, told reporters in November. Cornyn said he views Trump's campaign promises on trade as the starting point for negotiation: "Nobody gets to set the agenda unilaterally around here."

In March, Thomas Donohue, the president of the chamber, said Trump had "very little idea" of what trade actually is. And in June the group posted real-time critiques on Twitter as Trump gave an economic address. Since the election, the chamber has stressed areas of agreement with the incoming administration. Vice President-elect Mike Pence met on Nov. 16 with the group's board of directors, says spokeswoman Blair Latoff Holmes.

Business groups have a history of opposing Washington on trade issues with China. In the 1990s companies including Boeing, **Motorola**, and **AIG** were involved in lobbying efforts in the annual battle to renew China's most-favored nation status that gave its exports low-tariff status in the U.S. In 2011 trade groups representing companies such as **Microsoft** and **Walmart Stores** lobbied against legislation to pressure China to raise the value of its currency.

The U.S.-China Business Council, a Washington-based group representing more than 200 companies with interests in China, wrote a letter to lawmakers in 2011 to argue that unilateral legislation on the value of the yuan would be counterproductive. That came after Senator Chuck Schumer, a New York Democrat who will become minority leader in January, sought to reintroduce a bill aimed at forcing China to raise the value of its currency. No legislation was passed.

China International Capital, an investment bank in Beijing, says Trump's idea for a 45 percent tariff on imports from China would, if imposed, reduce the country's exports to the U.S. by 21 percent and slice 0.9 percent off economic growth.

Chinese sales as a share of global revenue

Wynn Resorts	**60%**
Qualcomm	**57%**
Yum! Brands	**53%**
Micron Tech	**43%**
Apple	**22%**
Jabil Circuit	**21%**
Boeing	**13%**

Steve Madden, a footwear maker based in Long Island City, N.Y., sources shoes from manufacturers in countries including China, Mexico, and India. Those suppliers could be hurt by higher tariffs in the event of a trade tussle, Chief Executive Officer Edward Rosenfeld said at a Nov. 15 Morgan Stanley conference. He added: "What I'm hoping is that some of that campaign rhetoric got a little overheated but that cooler heads will prevail."

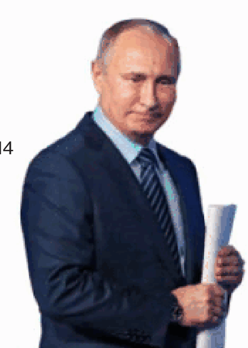
No one really knows what Trump will do. "He really is outside of this Washington, D.C., lobbying establishment," says Victor Shih, a professor at the University of California at San Diego who studies China's politics and finance. "One of the big issues going forward is whether they succeed in co-opting him or whether he really will just keep on standing outside of that establishment." —*Bloomberg News*

The bottom line Higher tariffs on Chinese goods could also hurt American manufacturers sourcing overseas.

Quoted

"Our opinions coincided that the current, unsatisfactory state of Russia-U.S. relations undoubtedly must be straightened out."

Russian President **Vladimir Putin**'s description of his Nov. 14 post-election phone call with Donald Trump, in a Nov. 30 speech to a foreign policy conference in Moscow



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Edited by Allison Hoffman
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December 5 — December 11, 2016

Stalking the Next Zuckerberg

▶ The people behind Peter Thiel's 1517 Fund connect young startup types with peers and cash

▶ "They are an intimate part of my experience with Silicon Valley"

Keynote addresses at hackathons can reliably be expected to include certain buzzwords and catchphrases: innovate, iterate, optimize, Fritos. So Danielle Strachman stood out at one in San Diego earlier this fall, when she got onstage and asked the thousand-odd coders in attendance to join her in a guided meditation. Quiet yourselves, she said. Focus on your breathing. Connect with your bodies. Join the movement. Her high-stress audience proved receptive, she recalls. "I could hear the sound in the room go down."

If this sounds a little cultish, well, it is. Joining the movement means forsaking a formal education to start a company in the manner advocated by Peter Thiel,

the Stanford J.D. who co-founded PayPal and Palantir. Strachman and business partner Mike Gibson have spent much of the past decade preaching the gospel of entrepreneurship as co-heads of the Thiel Fellowship, which awards $100,000 grants to about two dozen college-age students each year on the condition that the kids drop out to start companies. Until this year, when Thiel helped kill gossip site Gawker and became Donald Trump's biggest fan in Silicon Valley, it was his most public hobbyhorse.

This spring, six years into the fellowship program, Strachman and Gibson identified a flaw: They weren't taking advantage of their alumni and friends ▶

PHOTOGRAPHS BY GRAHAM WALZER FOR BLOOMBERG BUSINESSWEEK

of alumni, a network they thought could be of great value to a wider group of people, including investors. So over breakfast they pitched Thiel on a venture firm aimed at bridging the gap between the fellowships and the mentorship-for-equity trade of a typical startup accelerator: Using a relatively small pool of cash, they'd dole out gifts, loans, and access to the other founders and businesspeople in their loose social club. Everyone involved stood to benefit, they argued, and the investors would improve their odds of winning favor with the next Mark Zuckerberg, or at least getting to know him.

It was a good pitch, especially to Thiel, who went from multimillionaire to billionaire because he wrote Facebook a $500,000 check in 2004. Strachman and Gibson framed the fund as a continuation of Thiel's crusade against college, calling bachelor's degrees worthless pieces of paper like the indulgences sold by the Catholic Church in centuries past. The duo named the firm the **1517 Fund**, as in the year Martin Luther is said to have nailed the 95 Theses to a church door.

Over the top, sure. But Thiel bit, as did about 30 other investors, including EBay founder Pierre Omidyar, Skype co-founder Jaan Tallinn, the Coors family, Texas' Hunt family, and Nicolas Berggruen, the so-called homeless billionaire. They've put $20 million into 1517, and Strachman and Gibson have given young techies about $5.5 million so far. They quietly opened the firm in April and have made about 30 investments as large as $250,000 apiece, plus 60 or so gifts of as little as $1,000, often sent via the mobile-payment app Venmo. "To a young person, $1,000 can be a lot of money. To us, it isn't," says Strachman. "We collect social geeks—1517 is a search cost."

Search they do. About 60 percent of the early 1517 fundees are Thiel fellows or alumni, but unlike that program, 1517 doesn't disqualify people with college degrees. So most weekends, Strachman and Gibson are at hackathons such as the one in San Diego or at college campuses in the Midwest, sleeping on auditorium floors or on couches at tech-oriented frat houses. They teach undergrads how to pick the locks of handcuffs (meant to symbolize "the handcuffs of formal education") and hand teens T-shirts that read "Don't Go Back 2 School."

“To a young person, $1,000 can be a lot of money. To us, it isn't”

600

The people in 1517's informal social network, plus an extended list of 15,000

The past seven months of hustling have yielded a network of more than 600 people who rate an invitation to dinners, retreats, and other events the 1517 partners organize in the Valley and elsewhere across the U.S. That network includes young founders and grantees, Thiel fellows, and investors and other industry veterans who can offer technical, financial, and managerial advice. Strachman says 1517 has an additional 15,000 people receiving job postings and other startup community news via e-mail, essentially an on-deck circle.

During a recent house party in San Francisco's Mission District, a four-piece acoustic band called the Joy Drops played jazz standards and ragtime while 1517 invitees gabbed about everything from the state of tech mergers to the essays of Kierkegaard. Developers wearing augmented-reality headsets also made the rounds, inviting people to try their prototype. "Mike and Danielle don't discriminate," says Noah Shutty, one of the attendees. "I've met a lot of crazy people through them."

Strachman and Gibson found Shutty in the spring, when he was finishing his bachelor's degree in particle physics at the University of Michigan. In a friend's living room, with dirty laundry strewn about, he spent 20 minutes talking them through his development of algorithms that could more easily find and catalog audio files, applying lessons he'd learned from his search for dark matter. Within two weeks, they'd sent him a $10,000 credit for Amazon.com's cloud services, enabling him to ditch the old Dell server in his parents' basement and increase his search capabilities tenfold. They also Venmo'd him $1,000, which he used to move to San Francisco after he graduated.

"They are an intimate part of my experience with Silicon Valley," says Shutty, whose startup, Deepgram, has since joined the accelerator Y Combinator and raised $1.8 million. "I consider them friends at this point."

Things stay a little more formal with 1517's $250,000-or-so investments. Made in the form of convertible notes, they convert to equity if and when the lendee startup raises money from other investors who independently value it. And 1517 is structured like a traditional venture firm, meaning that 2 percent of the fund covers operational expenses and salaries for Strachman and Gibson, and as general partners they also get 20 percent of the firm's share in profitable investments.

Of course, if one of their startups fails, like 90 percent of startups do, 1517 gets nothing except goodwill from the founders, who are likely to try again. Among the ideas that have garnered larger investments: a smartphone that lets people pay for calls, texts, and data as they go; a CAD system for 3D printing; and sensors for contact lenses that monitor diabetics' glucose levels. As for the more casual grantees, some may disappear for months at a time, but many send regular e-mail updates or hold video chats with the 1517 partners.

"We've created something like a school here," says Gibson, without acknowledging the irony. "We want to work with people who fit our narrative to work outside the beaten path, advancing science and technology." Investor Berggruen calls the firm "a learning factory."

Strachman became co-head of Thiel's fellowship program after several years running Innovations Academy, a charter school she founded in San Diego that lets kids work on projects of their choosing. Gibson's path was a little more circuitous. He left Oxford's poli-sci doctorate program in 2007, convinced his academic work couldn't change anyone's mind, and became a technology writer with an interest in anarchy and seasteading, which helped land him a job at Thiel's hedge fund in 2010. Soon after, he was asked to work on the fellowship.

Since Facebook's initial public offering in 2012, many venture capitalists, both formally and informally, have paid more attention to trolling colleges for talent. The debate about learning for learning's sake notwithstanding,

RONY ALWIN (3)

Pop Tech

Depth sensors, projectors, and software code normally used by architects helped the dome determine the direction and speed of people's touches, says Burrows.

The installation's images, patterns, colors, and accompanying techno music changed depending on where people touched it and how much pressure they applied.

ComplexCon, Long Beach, Calif. The centerpiece of designer Marc Ecko's first arts and music festival was a psychedelic, interactive, audiovisual installation called *Baburu* (Japanese for "bubble"). Many of the 34,000 attendees waited in line for hours to play with the $200,000-plus air globe, a collaboration among artists Takashi Murakami and Beau Burrows and DJ and music producer Skrillex. —*Adam Popescu*

Murakami, the convention's co-creative director with rapper Pharrell Williams, says he came because Ecko is a friend. He sold bags, pillows, and other items there for hundreds of dollars apiece.

the numbers support critics who say startup founders need college. Of the 2,005 founders or co-founders of tech companies launched from 2009 to 2015 that have received at least $20 million in funding, just 94, or about 4 percent, have no college degree, according to data compiled by Bloomberg.

College remains a prerequisite even if you just want to work at a startup, says Will Hunsinger, chief operating officer for recruiting firm Riviera Partners, which sends leads to the likes of Uber, Airbnb, and Evernote. Most workers who want into those hiring pools need a degree from a top-25 engineering university, not a certificate from a three-month code academy, he says. "For every Zuckerberg, there's 1,000 or more guys who fail, but you don't hear about them," Hunsinger says. "We don't recruit them."

Still, the startup founders on 1517's invitation list seem less interested in backup plans than networking and community. Stacey Ferreira, a former Thiel fellow who sold her first startup at age 20, is working on a second one with 1517 funding. She says she comes to as many of the firm's events as possible, to scout for co-workers, mentors, and investors. Most important, she says: "Finding other young entrepreneurs like myself." —*Lizette Chapman*

The bottom line The folks behind the Thiel Fellowship are building a complementary startup network with gifts, loans, and advice.

E-Commerce

The New Advertising, As Seen on TV

▶ **Facebook is experimenting with ad targeting for streaming shows**

▶ **Consumers use their "right to swipe past" ads on social media**

The Most Interesting Man in the World is said to have invented skinny-dipping and parallel-parked a train, but he's had trouble holding people's attention on **Facebook**. A decade ago, TV commercials listing the Connery-esque mondain's fictional achievements, backed by a jingle heavy on Spanish guitar, helped turn Dos Equis from a fringe beer into a best-seller.

On Facebook, though, you'd have to click for the sound, so many people would scroll past the ad and didn't catch any of the Most Interesting Man's feats, or hear the Spanish guitar, or even see a bottle of beer. "The ad may work better than most, but the consumer still has the right to swipe past it," says Ron Amram, manager of global media for Dos Equis owner **Heineken**.

Facebook, the internet's No. 2 ad business, has a growth problem. Chief Financial Officer David Wehner said in November the company's revenue growth will "meaningfully" slow next year, because it's reaching the limit of how many ads it can push before turning off too many of its 1.8 billion monthly users. It's a real concern for advertisers that, as with the Dos Equis campaign, people are likely to have to decide to listen to an ad online. On TV, they have to decide not to listen.

That might explain why Facebook is using streaming TV to quietly test ▶

◀ an ad model that feels a lot more retro. For the past few weeks, the social network says, it's been targeting ads to people streaming certain shows on their Roku or Apple TV set-top boxes. It customizes commercials based on the Facebook profiles tied to the IP addresses doing the streaming, according to a company spokesman. He says Facebook is trying out this approach with the A&E network (*The Killing*, *Duck Dynasty*) and streaming startup Tubi TV, selecting free test ads for nonprofits or its own products along with a handful of name brands.

This year, the Most Interesting Man in the World got a social-media-driven makeover

This push is part of a broader effort by social media companies to build their revenue with ads on video. **Twitter** is placing much of its ad-sales hopes on streaming partnerships with sports leagues and other content providers. In October, CFO Anthony Noto told analysts on an earnings call that the ads played during Twitter's *NFL Thursday Night Football* streaming exclusives had been especially successful, with many people watching them in their entirety with the sound turned on. (Twitter has partnered with Bloomberg LP, the parent of *Bloomberg Businessweek*, to stream some Bloomberg TV shows, as well as the presidential debates.)

The participants in these partnerships don't yet have a default answer to questions such as who should be responsible for selling the ads or who should get which slice of revenue. **Snap**, the company behind Snapchat, is teaming up with **NBCUniversal** to run exclusive, short-form versions of shows including *The Voice*, and it's begun using more data-analysis software to prove its value to advertisers. Snap is also designing shows of its own and recently advertised a job opening for someone who would "oversee development and production for scripted and unscripted programming–from pitch to pilot."

Facebook has paid media companies hundreds of thousands of dollars for long-term live video deals. Its most famous live video may still be one of its earliest: **BuzzFeed**'s hourslong buildup of rubber bands that ultimately exploded a watermelon. Facebook is testing ads during some of its livestreams; video makers don't get a cut of that but will in the future.

As for its streaming-ad targeting, Facebook has a lot of questions to answer, including how best to track the ads' effectiveness. For now the company's priority remains finding ways to help advertisers adapt their strategies for use on its primary site. Among the lessons Heineken's Amram says he's learned: In case viewers have their PCs or phones muted, make the ads more visually gripping and eliminate dialogue. If you need the words, consider subtitles. And keep the ads short.

Amram's team relaunched the Dos Equis campaign earlier this fall with a new Most Interesting Man, this one in his 40s. (The actor from the first decade's commercials is in his 70s.) Dos Equis has 30-second ads featuring the new guy that air on TV, but there's also a 15-second version meant for social media, one that cuts straight to a shot of the Most Interesting Man barreling down a sand dune in an airboat, a disarming and slightly weird grin on his face. It's a strange, arresting image. When I first saw the ad, I had to keep watching for at least 10 seconds to figure out what was going on. This was, of course, the point. —*Vauhini Vara*

The bottom line Facebook is working with A&E and a streaming startup to tailor more conventional commercials for viewers.

Apps

An Uber-Tinder Mashup Hits the Spanish Steps

▶ **Rome's Scooterino offers Vespa sharing, with a social side**

▶ **"The whole transportation system was screwed up"**

Want to tool around Rome on the back of a Vespa like Audrey Hepburn did in *Roman Holiday*? Oliver Page can help. The 23-year-old American has developed Scooterino, a ridesharing app that links scooter drivers with people who need a lift through Rome's chaotic traffic–sometimes even sparking romance.

Just type your departure and destination points into your phone, choose a driver, and you're soon weaving through the streets of the Eternal City. At an average of €5 ($5.30) a ride, it's usually cheaper and faster than a taxi. Makeup artist Filo Di Iorio, who found out about the service after meeting Page at a bakery, says Scooterino has helped her cut her €80 monthly taxi bill in half. "I'm almost as addicted to scooter sharing as I am to pizza," Di Iorio says while waiting for a Scooterino pickup.

Page, who grew up in Rome after his parents moved to Italy for an extended holiday and never left, says he thought of the app while waiting for a bus. "It never came, everyone was stuck in traffic," he says. "The whole transportation system was screwed up. I just connected the dots."

Headquarters is a two-room office behind the Colosseum, where his team of eight spend their days fueled by espresso and carryout pasta, pizza, and sushi. Since the app's launch last year the company has arranged 17,000 rides and signed up 500 drivers. The rate is a flat €4 for the first four kilometers (2.5 miles), then €0.80 per kilometer after that. Scooterino takes 20 percent, and payment is processed automatically, so no money changes hands. A ride from the Colosseum to the Spanish Steps–a 30-minute walk–takes 10 minutes and costs €4, less than half the taxi fare and five minutes faster. Public transport, while just €1.50, takes about 15 minutes–if the bus shows up.

Drivers must carry an extra helmet with disposable liners, and both parties can view each other's profile, reject any ride request, and give a rating at the end of the trip. One driver says he swipes through potential passengers, choosing attractive women like he might on **Tinder**, and for

FROM LEFT: COURTESY DOS EQUIS (1); COURTESY ECHOPIXEL (4)

World AIDS Day on Dec. 1, Page's team handed out condoms as a promotion. "We jokingly call ourselves Tinderino," Page says, acknowledging occasional reports of romances that began with scooter rides. "If we're able to connect people in a way that they become friends and they can share their commute, we've done our job."

Page says he offers "ridesharing" rather than "ride hailing." That allows the company to skirt legal hurdles encountered by the likes of **Uber**, which has faced restrictions in Italy since a Milan court ruled it was an illegal taxi service. To start, drivers must drop by Scooterino's offices for a check of the quality of their bike and spare helmet, show their documents, and prove they're insured. So far, Page says, there have been no serious injuries, though there's no word on broken hearts.

Roman bureaucracy has been a challenge, with one office holding up €300,000 in public funding for two years after Scooterino won an award intended to back innovative startups, Page says. And he has more would-be riders than drivers; at peak hours passengers sometimes get messages asking them to check back later. Page says drivers, whom he calls "scooteristi," range from students to doctors, chefs, and attorneys. "There are always plenty of customers, so the issue is finding the time to accept requests," says Riccardo De Nigris, a 28-year-old lawyer-in-training who's one of Scooterino's most active drivers. De Nigris says he makes about €250 a month driving, which helps offset what he spends on fuel as he tools around Rome.

Page has secured €500,000 in fresh funding, which he'll use to expand to other Italian cities and create a system for reserving rides in advance. For the time being he plans to address the driver shortage by limiting the service to Rome's city center—until he can sign up more people willing to give strangers a lift. "There are 500,000 scooters in Rome," he says. "We just have to get the word out." —*Chiara Albanese and Alessandra Migliaccio*

The bottom line At an average of €5 a ride, Rome's Scooterino is usually cheaper, faster, and a little flirtier than a taxi.

Edited by Jeff Muskus and David Rocks
Bloomberg.com

Innovation

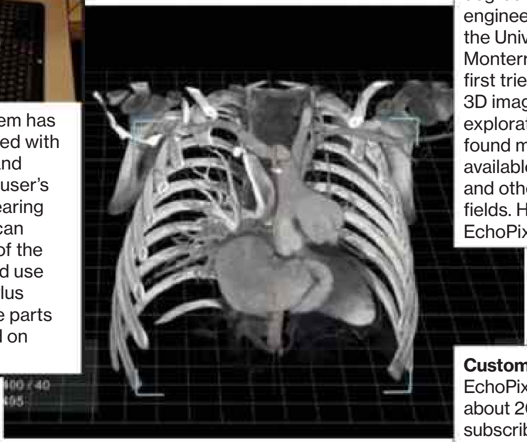
EchoPixel

Form and function
EchoPixel's software stitches together data from CT scans, MRI machines, and ultrasounds to generate 3D images that medical professionals and patients can examine and manipulate using 3D glasses and a stylus.

Innovator Sergio Aguirre
Age 40
Title Founder of EchoPixel, a four-year-old, 18-employee medical-imaging startup in Mountain View, Calif.

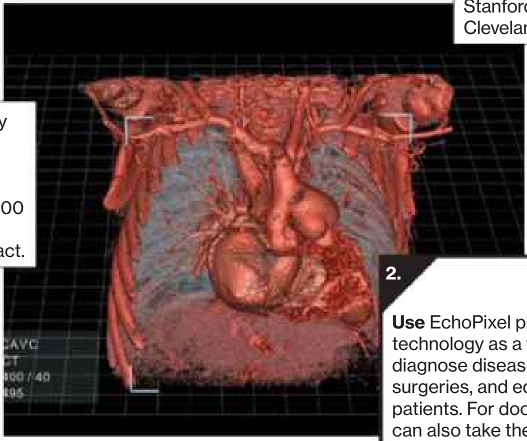
1.

Equipment The system has a desktop PC equipped with EchoPixel software and cameras that track a user's head movements. Wearing 3D glasses, viewers can see an exact replica of the subject's anatomy and use an accompanying stylus to digitally manipulate parts of the body projected on the screen.



Origin Aguirre, who has a master's degree in electrical engineering from the University of Monterrey in Mexico, first tried to use 3D imaging for oil exploration but found more data available in radiology and other medical fields. He founded EchoPixel in 2012.

Customers EchoPixel has about 20 paying subscribers, including Stanford and the Cleveland Clinic.



Cost The company charges $25,000 a year for a subscription to its software, or $22,000 a year with a longer-term contract.

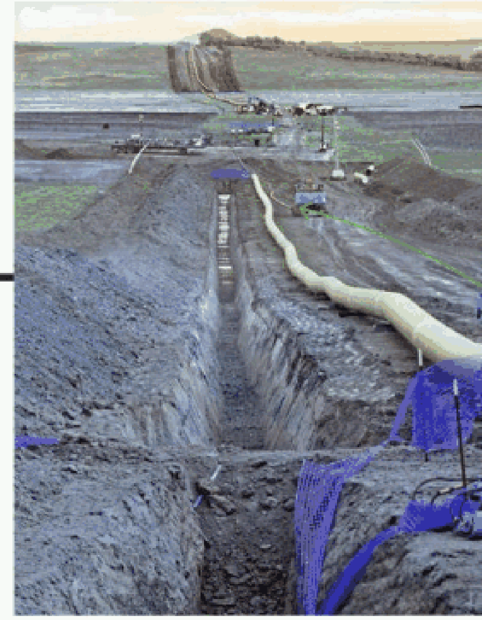
2.

Use EchoPixel pitches its technology as a way to diagnose diseases, plan surgeries, and educate patients. For doctors, it can also take the guesswork out of converting 2D scans to 3D actions.

Next Steps
"This interactive virtual reality really facilitates understanding," says Ken Merdan, a senior research and development fellow at medical-device maker Boston Scientific. "When you are looking at something complex—and anatomy is complex and hard to understand—it's easier to grasp in a short time frame." The U.S. Food and Drug Administration has approved EchoPixel's system, and the company says it's working on refinements that will eliminate the need for 3D glasses, letting people view its images on standard mobile devices. —*Michelle Cortez*

December 5 — December 11, 2016

North Dakota Pipe Dreams



▶ **The controversial $3.8 billion Dakota Access project is key to the state's future as an oil producer**

▶ **It could be "the difference between survival and shutdown"**

By Dec. 1, construction of the 1,172-mile Dakota Access Pipeline will be all but finished. The only thing left to build, says its owner, **Energy Transfer Partners**, will be about 1,100 feet of pipe to be laid beneath Lake Oahe, a sliver of water south of Bismark, N.D. The U.S. Army Corps of Engineers is reviewing the easement application by Energy Transfer, which spent much of the past two years quietly laying miles of pipe in four states before running into a national protest movement camped out near the Standing Rock Sioux Reservation.

To the protesters, stopping the pipeline is an assertion of American Indian rights and a means of ensuring that an oil spill never threatens aquifers. There are also economic and environmental stakes that reach beyond Standing Rock. Without the Dakota Access Pipeline, North Dakota's abundant but hard-to-reach oil resources likely won't be fully developed, potentially leaving millions of barrels in the ground.

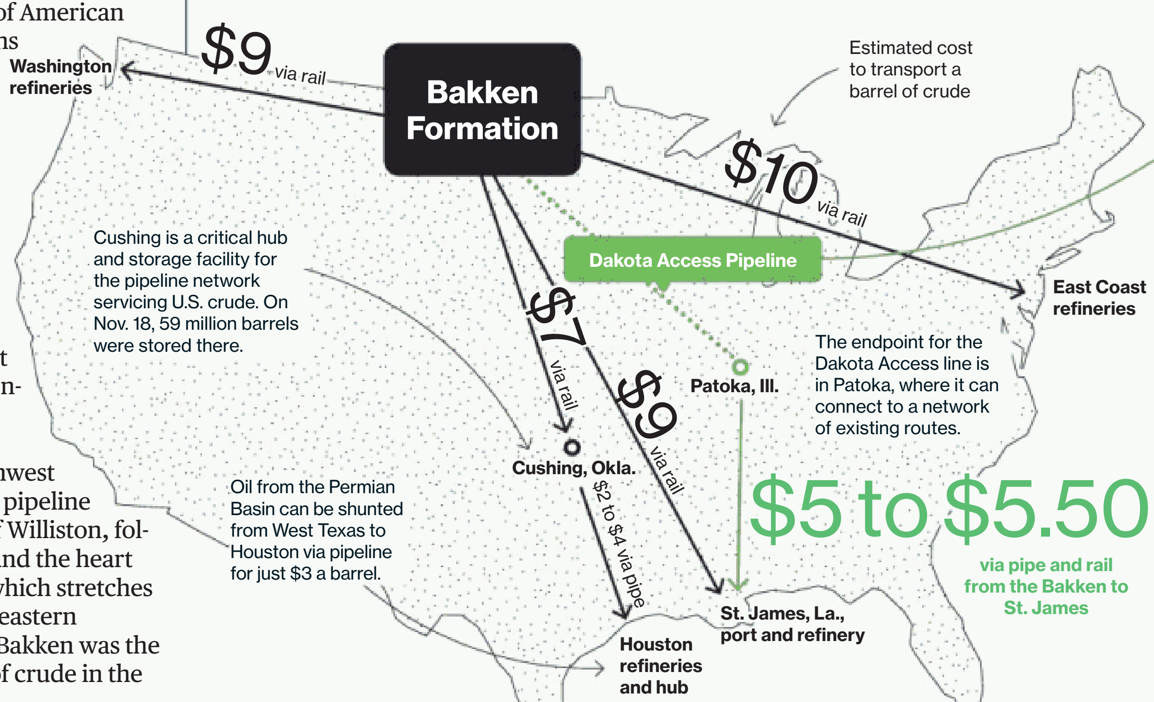
About 200 miles northwest of the protest camp, the pipeline coils around the town of Williston, following a semicircle around the heart of the Bakken oil field, which stretches from North Dakota into eastern Montana. For years the Bakken was the fastest-growing source of crude in the U.S., with output jumping to a peak of 1.2 million barrels a day in December 2014, from less than 100,000 in 2005. The boom turned North Dakota into the second-largest oil-producing state in the U.S., behind Texas.

Unlike Texas, which has pumped oil for more than a century and is home to thousands of miles of pipelines, North Dakota never had a reason to build much energy infrastructure. As oil gushed out of remote areas miles from any town or pipeline, wildcatters, middlemen, and traders raced to get it out by truck, train, and barge. By 2015, 800,000 barrels of crude a day was being railed out of North Dakota.

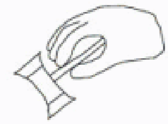
Moving oil by train costs a lot more than pumping it through a pipeline, but when world crude prices hovered around $100 a barrel—as they did for several years—there was enough profit

How to Move a Fortune

Shipping crude from the Bakken is relatively expensive, according to estimates from Valero and Bloomberg Intelligence. The Dakota Access Pipeline would make it more economically viable.



PHOTOGRAPH: TOM STROMME/BISMARCK TRIBUNE; DATA: VALERO, BLOOMBERG INTELLIGENCE; PRICE ESTIMATES AS OF FEBRUARY 2016



to go around. Now that prices have fallen, those transportation costs have become critical. Refineries on the East Coast, once among the biggest buyers of Bakken crude, have reverted to importing foreign oil rather than paying to ship it halfway across the country.

With oil prices below $50 a barrel, the lack of cheap transport has crimped Bakken production, raising questions about the viability of North Dakota's oil industry. Production in the state has declined 20 percent over the past two years. That's almost double the drop in Texas and Oklahoma, which have much easier access to pipelines and can get their oil to refiners for less money.

The $3.8 billion Dakota Access is supposed to fix that problem. It will be North Dakota's first oil superhighway, capable of moving about half a million barrels a day out of the Bakken and into southern Illinois, home to a handful of refineries. From there, the project will link to existing pipes that connect to the oil storage hub in Cushing, Okla., and to the Gulf Coast, home to the largest refinery system in North America.

Estimates vary, but the transport costs of sending oil through the Dakota Access will be below $10 a barrel, compared with as much as $25 without it, according to Lynn Helms, director of the North Dakota Department of Mineral Resources. That's "the difference between survival and shutdown for a lot of North Dakota producers," says Philip Verleger, an energy consultant and former director of the office of energy policy at the U.S. Department of the Treasury. The real benefit of Dakota Access, Helms said during a Nov. 16 press conference, is "giving a known value to the transport costs, as opposed to costs that can be all over the map and change very quickly."

While the election of Donald Trump gives the energy industry a powerful ally, there's no set date for the pipeline's completion. The Army Corps hasn't indicated when it might come to a decision on the Lake Oahe easement application, though it has given protestors until Dec. 5 to vacate their encampment. Energy Transfer says it expects the pipeline to be in service sometime in the first quarter of 2017, but analysts and traders are starting to think it will be later. Mark Rossano, an energy strategist at Elevation Securities, says he thinks the pipeline might not be operational for 18 months.

Drilling has basically stopped in North Dakota. As of the end of November, only 38 oil and gas rigs were operating in the state, compared with more than 200 back in 2014. But cheap oil has forced North Dakota's producers to get lean fast. According to Rossano, the average cost to bring a new well online has fallen to $5 million, from about $17 million a few years ago. Some of the best wells in the Bakken can produce oil for about $15 to $17 a barrel, according to the North Dakota Department of Mineral Resources. That's on par with some of the most profitable oil fields in the world, including those in the Middle East. Yet without an efficient mode of transport, that oil will have trouble making it to market. "That's why Dakota Access is so essential to locking in the future production of the Bakken," Rossano says.

That future production unnerves environmentalists. Ensuring "decades of low-cost transport on Dakota Access would have huge climate implications by making it far more likely that oil from the Bakken will come out of the ground and be burned," says Doug Hayes, a staff attorney with the Sierra Club, which opposes the pipeline. A report from Oil Change International says the amount of oil Dakota Access would move each day would have the same carbon footprint as 30 U.S. coal plants.

Some energy experts say Dakota Access is already a failed project. Cathy Kunkel, an analyst at the Institute for Energy Economics and Financial Analysis, says the pipeline is no longer needed given how much production has fallen in the state. In a report she co-authored in November, Kunkel predicts that a continued slump in oil prices will lower Bakken's production to less than 800,000 barrels a day by the end of 2017. "At that point, existing pipelines and refineries could handle the region's entire oil output," she writes.

The report also cites testimony in federal court from a Dakota Access official on Aug. 18 who claimed that Energy Transfer had committed to finishing the pipeline by Jan. 1. Missing that deadline will allow companies that had signed contracts to use the pipeline to terminate their commitments, he said. That could cost Energy Transfer hundreds of millions in lost revenue. In an e-mail, a company spokesperson disputed this, saying the termination date is "further out," but declined to give specifics. —*Matthew Philips*

The bottom line Without the Dakota Access pipeline, millions of barrels of North Dakota oil could stay in the ground.

Wealth

For Rich Families, A Change in Tax Plans

▶ **Advisers see lower rates coming in the Trump era**

▶ **The end of the estate levy "will equate to an enormous gift"**

Some of the wealthiest families in the U.S. are already betting on large tax breaks from President-elect Donald Trump. They and their businesses had been preparing to give assets to their heirs before tougher rules proposed in August by the IRS could take hold. Now they're reevaluating those plans, because those rules may be mothballed. The estate tax may be on the way out, too.

Trump is gearing up to embark on the biggest overhaul of U.S. taxes in three decades. His proposals include cutting income and corporate taxes and eliminating the estate tax–labeled the "death tax" by detractors–which primarily hits the richest 10 percent of the population, according to the Tax Policy Center. The IRS collected $21 billion in revenue from taxes on estates and gifts in fiscal year 2016, according to data from the Department of the Treasury. "Eliminating the death tax will equate to an enormous gift," says Peter Rup, chief investment officer at Artemis Wealth Advisors in New York.

More immediately, advisers to ▶

◀ wealthy families anticipate the new administration will take a friendlier approach to a strategy that can lower taxes on wealth transfers. When families pass on shares of their privately owned businesses or family offices—that is, companies set up to handle the money of single family—they're often allowed to value those shares at a discount. A report by the law firm White & Case says the discounts they take typically run from 20 percent to 45 percent.

The Obama administration tried for years without success to curtail the benefit through legislation. Then it proposed rules through the IRS to accomplish the goal. Under the new president, any such rules "could be pulled," says John Olivieri, a lawyer who works with wealthy families.

Trump's plans for a tax overhaul appear to be on the fast track. On Nov. 15, Kevin Brady, the Texas Republican who chairs the House tax-writing panel, said discussions were in the works. Even with Congress on his side, though, Trump may not be able to permanently repeal the estate and gift taxes. Under present Senate rules, that would require 60 senators to agree, which means some Democrats would have to cross the aisle.

Current law allows an individual to leave as much as $5.45 million to heirs without paying federal gift or estate taxes; married couples can shield $10.9 million. Any amount above those thresholds is taxed at 40 percent.

Trump's plan would replace the estate tax with a capital gains tax on the appreciation of inherited assets of more than $10 million, subject to some exemptions for small businesses and family farms. At present, capital gains tax on inherited assets is calculated using the gain from the time they're inherited to the time they're sold. Trump's proposal would use the original purchase price, potentially creating a bigger taxable gain. That would offset some of the revenue lost to estate tax repeal. But the new tax wouldn't be due until an asset is sold, and the top capital gains tax rate of 20 percent is half that of the estate tax.

Advisers are telling rich clients to hold off on large transfers until there's more clarity about the rules. They're also urging them to take steps to defray taxes this year by, for example, booking investment losses now. "More than ever, any income, including investment income, that can be deferred to 2017 should be," Nicholas Bertha, director of wealth and trust planning at Fieldpoint Private, wrote to clients in November. "Discretionary deductions, on the other hand, should be accelerated to this year." Translation: Wait to collect those winnings—lower taxes could be on the way. —*Simone Foxman*

The bottom line Wealthy families were bracing for tougher tax rules set in motion by the Obama administration. Then Nov. 8 happened.

India

A Cash Crackdown Hits Gold Pawners

▶ **Indians struggle to find valid currency to repay their loans**

▶ **"We are reorienting our strategy to push digital transactions"**

Abin Baby, an unemployed teacher from the town of Thodupuzha in the southern Indian state of Kerala, was in a bind. He needed money to cover some emergency expenses, but since he was out of work, he couldn't easily get a loan from a bank. So in August he took a 14-gram gold bangle and used it as collateral for a six-month loan of 27,500 rupees ($402) from **Muthoot Finance**, one of the leading providers of gold-based loans in India.

Such loans are a primary way to borrow money in rural India, where gold is an especially popular gift at festivals and weddings and millions of poor people don't use the banking system. The interest rate on Baby's loan was 18 percent. Not having many options, he decided getting the loan was worth the expense. The transaction happened "quickly and smoothly compared to the banks," he says.

The gold-loan business has suddenly gotten bumpy. Prime Minister Narendra Modi's decision last month to invalidate all 500-rupee and 1,000-rupee notes has Indians scrambling to get their hands on valid currency. Because almost three-fourths of payments for gold-loan interest and principal are made in cash, as opposed to, say, bank transfers, the shortage of legal tender is hurting lenders. Modi's move, known as demonetization, is designed to crack down on tax evasion by forcing people to tender their cash to the bank, where it can be recorded.

"Demonetization will be a blow" for the gold-loan business, says Payal Pandya, an analyst with Centrum Wealth Management in Mumbai, who estimates the companies may have to slash projections of loan growth for the year by 5 percentage points to 7 percentage points. The stock price of **Manappuram Finance**, a lender that has 66 tons of gold in collateral, dropped 25 percent in the 15 trading days following Modi's announcement, while Muthoot's fell 16 percent. Loan repayments declined in urban and rural areas, says V.P. Nandakumar, Manappuram's chief executive officer. A shortage of cash is also putting the squeeze on India's $40 billion market for jewelry: Transactions will shrink as much as 30 percent because of the shortage of notes, according to a Nov. 23 report by Ambit Capital analysts.

Modi's timing is especially bad for **PC Jeweller**, a New Delhi-based manufacturer and retailer. The company gets more than 90 percent of its revenue from wedding-related sales, according to Chief Financial Officer Sanjeev Bhatia, and the currency shortage is taking place in the midst of wedding season. "Whatever sales we should have been doing at this point of time—perhaps we are doing 40 percent of that," Bhatia told analysts on a conference call on Nov. 24.

Almost all of India's gold is imported, and successive administrations concerned about its impact on the country's currency and trade balance tried for years to weaken gold's prominence in the economy. Starting in the fiscal year ended March 2009, India's consumer price index rose by 8.9 percent or more a year for five consecutive years; gold imports increased in turn, from $17 billion in 2008 to $56 billion in 2012, putting pressure on the current-account deficit. In

Gold bracelets on sale in Hyderabad

PHOTOGRAPH: NOAH SEELAM/AFP/GETTY IMAGES; ILLUSTRATIONS BY CAROLINE DAVID

response to that soaring demand, the government of Modi's predecessor, Manmohan Singh, raised taxes on imported gold three times in 2013, to 10 percent. The country remains the world's second-largest gold consumer after China–it now has more than 20,000 tons of the precious metal.

To reduce people's need to buy gold as an inflation hedge, Modi's government in November 2015 introduced an eight-year bond offering a redemption price linked to the price of gold. The bonds, says the finance ministry, eliminate the risk and cost of storing the precious metal. The government also exempted individual holders of these bonds from taxes on their capital gains.

In March, after Modi's finance minister, Arun Jaitley, announced a 1 percent excise duty on gold ornaments made and sold in India, angry jewelry shop owners responded by shutting their doors in protest for most of March and part of April. The biggest bullion refinery, **MMTC-PAMP India**, shut operations from May to September because of weak demand. According to the World Gold Council, Indian consumers' demand for gold in the third quarter of 2016 fell 28 percent from the same period a year earlier, to 195 tons.

Centrum's Pandya says the disruption may be short-lived. Muthoot and Manappuram are already shifting many transactions online, eliminating the need for cash payments. Within a year, 70 percent of Muthoot's transactions will be digital, says Managing Director George Alexander Muthoot. Smaller rivals "will be hit more by the cash ban, as they don't have access to digital channels for disbursals and repayments like us," he says. "We are reorienting our strategy to push digital transactions as much as we can." Manappuram has introduced a service allowing borrowers to get loans quickly over the internet, using gold they've stored in its vaults. The company hopes to convert one-third of its gold-loan customers to the online system within 18 months. Gold, says CEO Nandakumar, "is seen as the poor man's credit card."
—*Bruce Einhorn and Anto Antony*

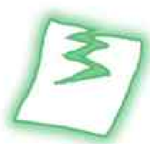
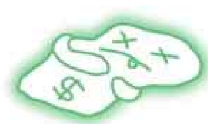
The bottom line India's government wants the economy to be less reliant on cash and especially gold, which many Indians use to store their wealth.

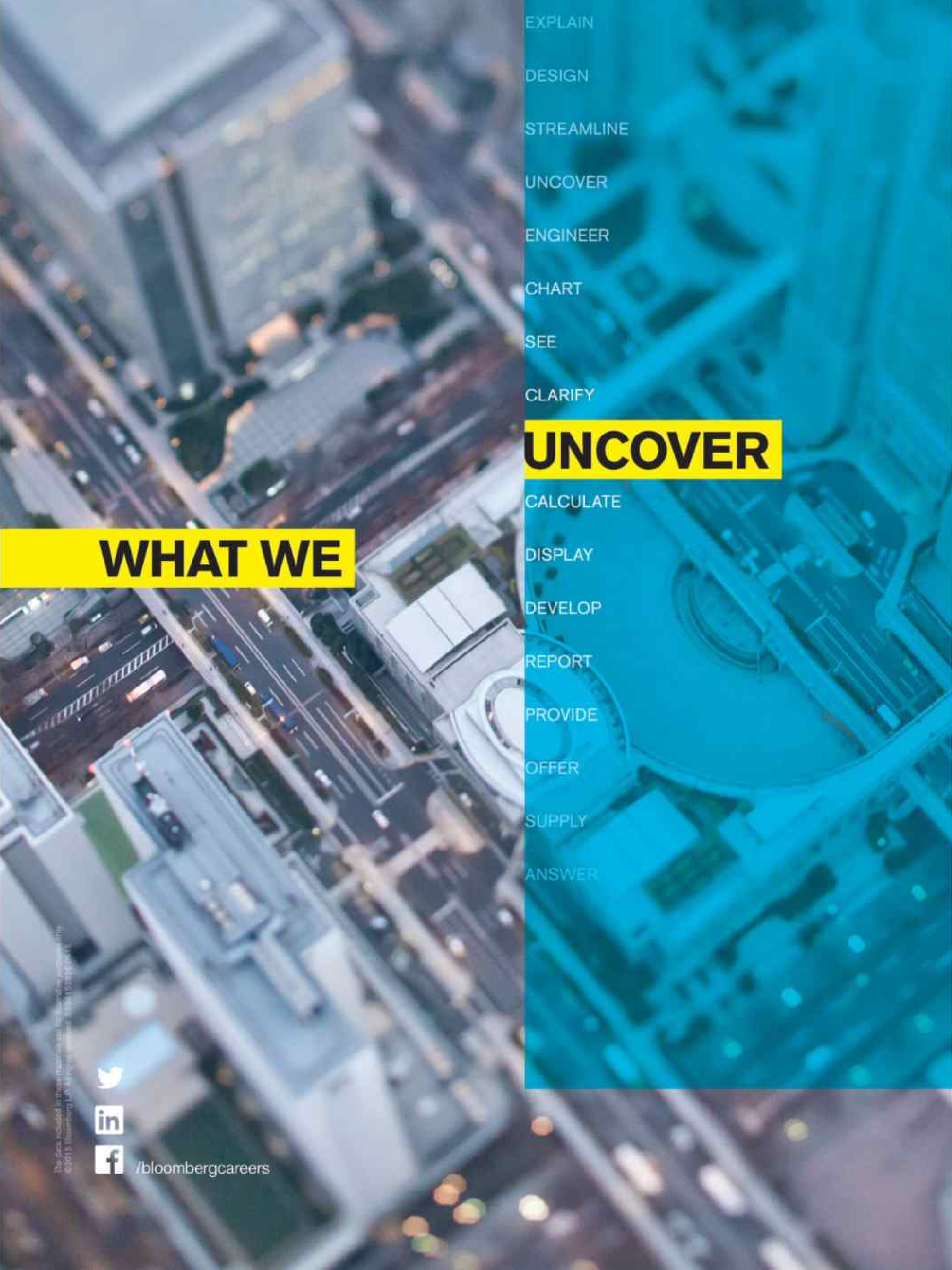
Edited by Pat Regnier
Bloomberg.com

Banking Regulation

By Yalman Onaran

After the financial crisis, Congress and regulators put in place rules designed to make the banking system safer. Here's where they stand now—and how President-elect Trump and a Republican Congress might change them.

	Now	What could happen
Capital requirements 	Banks around the world are required to hold more capital—that is, less of their business can be funded with money they borrow. Banks with more capital are less likely to go under.	The Federal Reserve is at the forefront of translating and implementing capital rules. A Fed filled with Trump appointees could loosen those rules, which would allow banks in the U.S. to boost their profit. But Republicans traditionally have called for higher capital requirements as a better alternative to other regulations.
Small banks	Many of the stricter standards put in place by the Dodd-Frank Act cover big and small banks alike. 	Jeb Hensarling, the Republican chair of the House Financial Services Committee, has proposed exempting a bank from many regulations if it maintains a capital ratio of at least 10 percent, using one conservative way of calculating it. Big banks would have a hard time meeting that—the six largest average less than 7 percent—but many smaller banks already do.
Shadow banks 	The Financial Stability Oversight Council can designate some nonbank financial companies as so important to the system that they could be subject to added rules. Regulators have also been looking into ways to reduce risks posed by hedge funds and other nonbanks.	The Trump administration could be friendlier to nonbanks. Many analysts expect the government to drop its appeal of a court decision rescinding the FSOC's designation of insurer MetLife as systemically important. Paul Atkins, who's advising Trump on regulatory appointments, opposed regulation of hedge funds when he was a member of the Securities and Exchange Commission. The FSOC will be chaired by Trump's Treasury secretary; he's picked Steven Mnuchin, a Goldman Sachs alum who's run a hedge fund.
Stress tests 	Every year, the Federal Reserve subjects large and midsize banks to stress tests, which look at how the companies would fare in a hypothetical crisis. Banks that don't pass can't increase dividends and share-buyback programs.	Banks may get changes to how stress tests work. They complain the Fed isn't transparent enough about how losses are calculated in the tests, a complaint echoed by a recent report from the Government Accountability Office. That analysis was commissioned by Hensarling, whose chief counsel is writing policy papers on regulation for Trump's transition team.
When banks die	The Federal Deposit Insurance Corp. can wind down a bank while using funding from the Fed in the transition. Republicans say this enshrines too-big-to-fail bailouts. Supporters say the process can prevent panics while still forcing shareholders and creditors to bear the cost.	Republicans want to let failed financial institutions go bankrupt, meaning there would be no government money involved besides FDIC protections on deposits. If that happens, banks will likely demand changes to bankruptcy law, making it more suitable for them. 
The Volcker Rule 	Named after former Fed Chairman Paul Volcker, the rule prohibits banks from making market bets and limits their trading activity to serving their clients' needs.	Hensarling and other Trump advisers have attacked the rule. But it probably will be spared, bank executives say, because Democrats will oppose its rollback. Volcker, still widely revered for bringing down inflation in the 1980s, would also defend the rule publicly. Trump has said he's OK with the rule as long as Volcker is happy with it.



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The New Money Issue

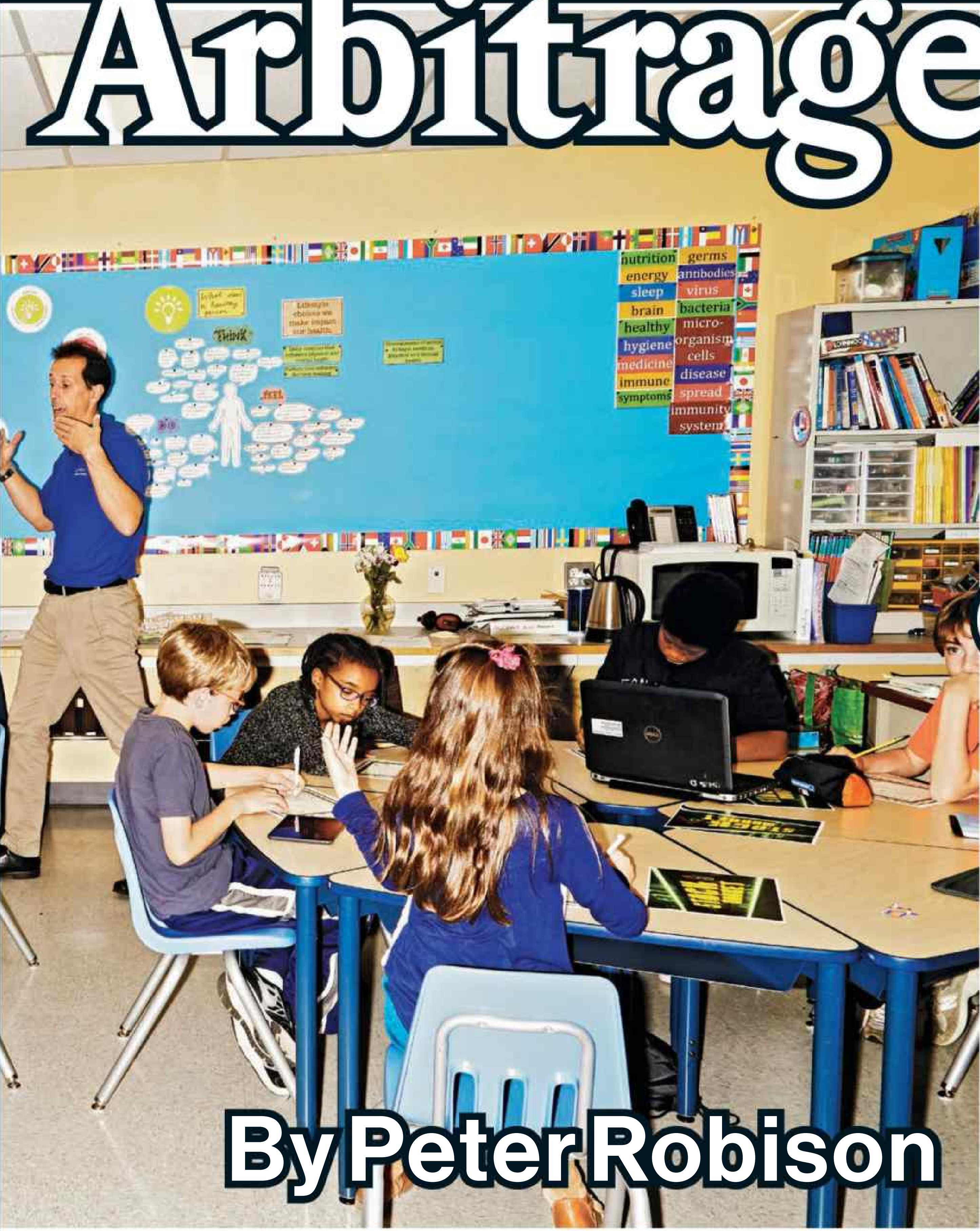
Here's what the future looks like to people starting out—or starting over.

All photographs by Amy Lombard

A Is for

A week at summer camp for aspiring capitalists—age 5 and up.

Arbitrage



By Peter Robison

One day this summer, to occupy our two boys and maybe teach them something about money, my wife and I set up a sidewalk lemonade stand. She put out a chipped red table that had been hers as a girl and helped our older son, who's 5, carefully letter "LEMONADE" and "50¢" onto construction paper. When neighbors stopped by, our younger boy, 3, would splash juice from Costco into a plastic cup as his big brother slowly counted change. The customers often let them just keep the dollar, and by afternoon's end, they had collected $8. Our 5-year-old later got *awww-that's-cute* laughs explaining how they'd managed such a haul: "I don't give change."

So much of parenting feels rushed. For once, I thought, here was a memory that would have a satisfying, Rockwellian glow.

Until the following week, when I met Chuchi Arevalo. The founder of a youth business academy popular with professional parents in the suburbs of Washington, D.C., he told me, in so many words, that my sons' effort was an entrepreneurial embarrassment. A Georgetown MBA and former banking consultant, Arevalo has developed a curriculum for children as young as 5, and it starts with an introduction to the lemonade stand—which he views as a vehicle for lessons in strategy, operations, and finance. "It's not just, hey, winging it," Arevalo told me, wearing tan slacks and a blue polo. Operators of successful stands, he explained, have a marketing plan: fliers, social media, partnerships with school sports teams. They know their supply costs and gross margin. And they diversify into new revenue categories. "Could you have cookies or bananas or fruit or something that allows you to sell more stuff?" he asked. "By the way, what are you going to do in the winter? You're not going to sell cold lemonade—what about hot chocolate?" I tried to decide if Arevalo was a dynamo of American capitalism or an innocence-stomping robot.

His company is called Spark Business Academy. I'd seen its course descriptions in a flier of D.C. summer camps, next to the more typical fare of art, music, and sports. His blurbs had pictures of grade-school moguls in suits talking on cell phones and promised to teach children such things as "cultivating an entrepreneurial mindset" and "building a stock-market portfolio." Arevalo offered to let me sit in on his flagship Future Millionaires Bootcamp, a weeklong, $495 course in budgets, investing, entrepreneurship, business ethics, and leadership.

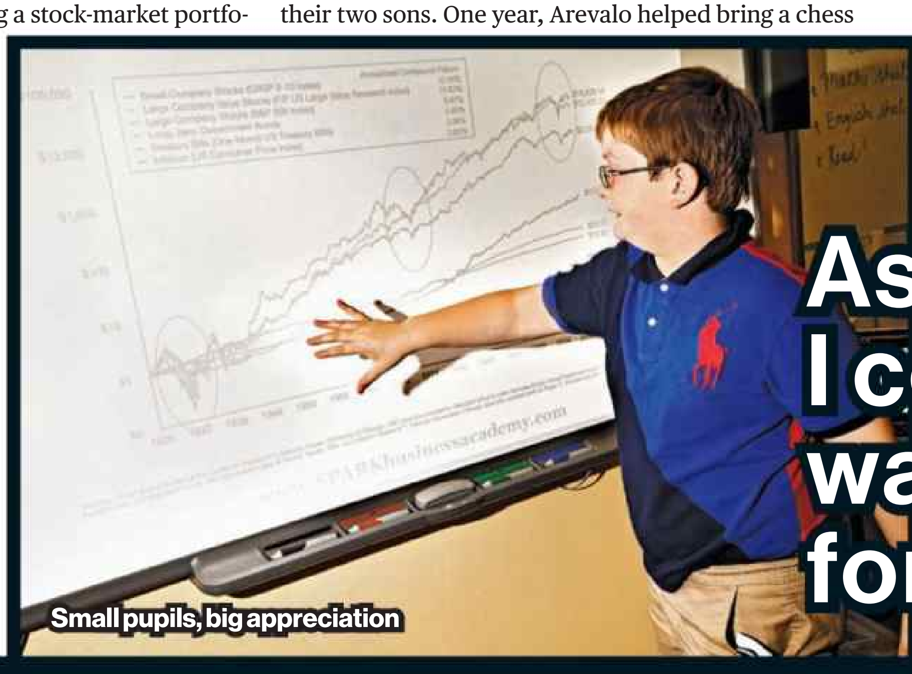
On the first day, at a white-columned Baptist church on a leafy corner in Arlington, Va., the parking lot filled with Volvos and Priuses as parents dropped off their children. Younger kids, age 6 to 10, filed upstairs, where a Ph.D. candidate at George Washington University put them to work devising business plans. Some drew pictures of their products—it was August, and ice cream was a recurring theme—while others filled out forms with estimates for prices, cost, revenue, and profit. "What's our mission statement?" asked a sandy-haired fourth-grader.

Older kids, age 11 to 16, gathered downstairs, in a choir room filled with long tables. Arevalo took the lead. He blitzed through the financial milestones of life. Credit cards. FICO scores. Student loans. Investment portfolios. Even, perhaps, managing a company and solving difficult business problems. "Leading practices—that's important for you to know," he said at one point, the first of many times during the week he lapsed into corporate-speak.

To entertain the group of about a dozen teenagers, who could have been at the pool or making mischief or otherwise enjoying summer, Arevalo didn't joke or play the guitar. Instead, he tapped calculations into a spreadsheet projected onto a large screen, as if he were at a banking conference. I got the sense he hadn't changed his style much from a previous job, when he was an in-house instructor at consulting firm PwC. The class remained tomblike as he broke down the factors that affect a FICO score and showed how to build retirement savings through the magic of compounding.

When Arevalo observed that Facebook once turned down a $1 billion offer from Yahoo!, an 11-year-old with glasses asked how much the social networking giant was worth. "Great question!" Arevalo said, segueing to an explanation of market capitalization (and the answer, based on that day's stock price: $359 billion). The mention of a company with some relevance to their lives seemed to perk the kids up. But as the day went on, I began to inventory the various ways it's possible for a teen to slouch: the lean-back, the head-on-desk, the Leaning Tower of Pisa, and my favorite, the Linebacker—one kid who sat sideways, with elbows on knees, as if poised to spring up at the first opportunity to flee.

Arevalo was born near Madrid in 1971. After studying economics at the University of West London, he moved to Washington and got a post as a research assistant at the International Monetary Fund. He joined PwC in 1999, the same year he earned his graduate degree from Georgetown, and settled in Arlington with his wife and their two sons. One year, Arevalo helped bring a chess



Small pupils, big appreciation

club to his sons' school, and that got him thinking: Why weren't there any classes about money management in a country famously addicted to credit?

Arevalo worked up a syllabus in his spare time, and in 2013 he e-mailed a proposal for a basic finance class to Beauvoir, a private grammar school on the grounds of the Washington National Cathedral. Beauvoir is a feeder for St. Albans School and the National Cathedral School, college preps that count Kennedys and Rockefellers among their alumni. While Beauvoir offered math, robotics, and Mandarin, it had never taught finance, says James Gilroy, director of auxiliary programs. The school hired Arevalo to teach his first class, called Money Matters, to 13 students in January 2014. He quickly expanded to other schools, thanks to word of mouth in the elite parent set.

In Washington and its suburbs, it's like the Great Recession never happened. Almost a quarter of D.C. households now earn more than $150,000 a year, compared with 8 percent in 2000. Five of the 10 wealthiest U.S. counties are D.C. suburbs; the city is chockablock with lawyers, government contractors, and consultants. Tasting-menu restaurants have proliferated, even in Shaw, the district that burned in the 1968 race riots, and a *Washington Post* article this year gave a name to a new phenomenon: the $1,000 date night. Area schools are notorious pressure cookers, as high-achieving parents push their children to begin their own ascent.

"Lifestyles have changed a lot," says Maura Schauss, managing partner of Washington Wealth Advisors, a suburban Virginia money manager that's hired Arevalo for classes with clients' kids. "But you can still teach children the value of money." Another customer, Natalie DeGraaf, likes to joke that on her street in Alexandria, everyone has a security clearance. DeGraaf, a biosafety expert with two master's degrees, and her husband, a lawyer, sent their 10-year-old daughter to one of Arevalo's classes last year. Afterward, DeGraaf was pleasantly surprised when her daughter began listening intently to news about Apple on National Public Radio.

Three years after founding Spark, Arevalo left PwC this year to work full-time on building the company. He now employs 15 instructors to teach 85 after-school classes and 10 weeks of summer camp at 45 schools, mostly in the D.C. area, plus a few in New York.

At Future Millionaires week in Arlington, Arevalo started camp as he always does, by destroying a time-honored financial tradition: a child's first bank savings account. In the era of quantitative easing, he said,


Arevalo

historically low interest rates make stocks a better long-term investment. Somehow, Arevalo's almost pathological inability to speak at a kid's level came off as charming. He asked questions that forced them to do math in their heads and casually deployed microeconomics terms like *price elasticity of demand*. At one point, he put IRS Form 1040 on the screen and explained it line by line.

Whytni Kernodle, a lawyer who spent almost $1,000 for her two sons to attend the camp, told me that she'd mentioned Future Millionaires to a Parisian friend—who teased her that in France, such a thing would be picketed. But Kernodle said Arevalo provided an experience her sons didn't get from their other summer pursuits, which included trips to Morocco, Ghana, and a camp in Malibu, Calif. "I find it incredibly difficult to set limits," Kernodle said. She worries that children these days rarely see their parents handling physical money, let alone doing much in the way of labor to generate it. "The work they see us doing is reading, writing, talking on the phone," Kernodle said. "So the value is abstract."

Eventually, Arevalo broke through to even the most skeptical campers. When he divided them into teams for a finance quiz most adults would probably flunk, they clapped and pounded the tables. Just about everyone could name the main U.S. stock exchanges, calculate an investment's rate of return, and explain the concept of portfolio diversification.

On the last day of camp, Arevalo brought doughnuts and pizza and led one last debate, about the ethics of Mylan's decision to raise prices sixfold on its lifesaving EpiPen. Or, as he put it in a note to parents, "Campers practiced stakeholder management by seeking to strike a balance between the company's duty to increase shareholder value (and profits) and its duty to its customers."

When it was time to say goodbye, Volvos and Priuses again filled the parking lot. Another parent, Patricia Harrison, later told me she spent the rest of the summer evening discussing the ethics of the Mylan controversy with her son Colin, 15, instead of more typical fare such as sports, apps, or video games. The talk only ended when Colin got up from the dinner table, saying he had to check on his stocks. B

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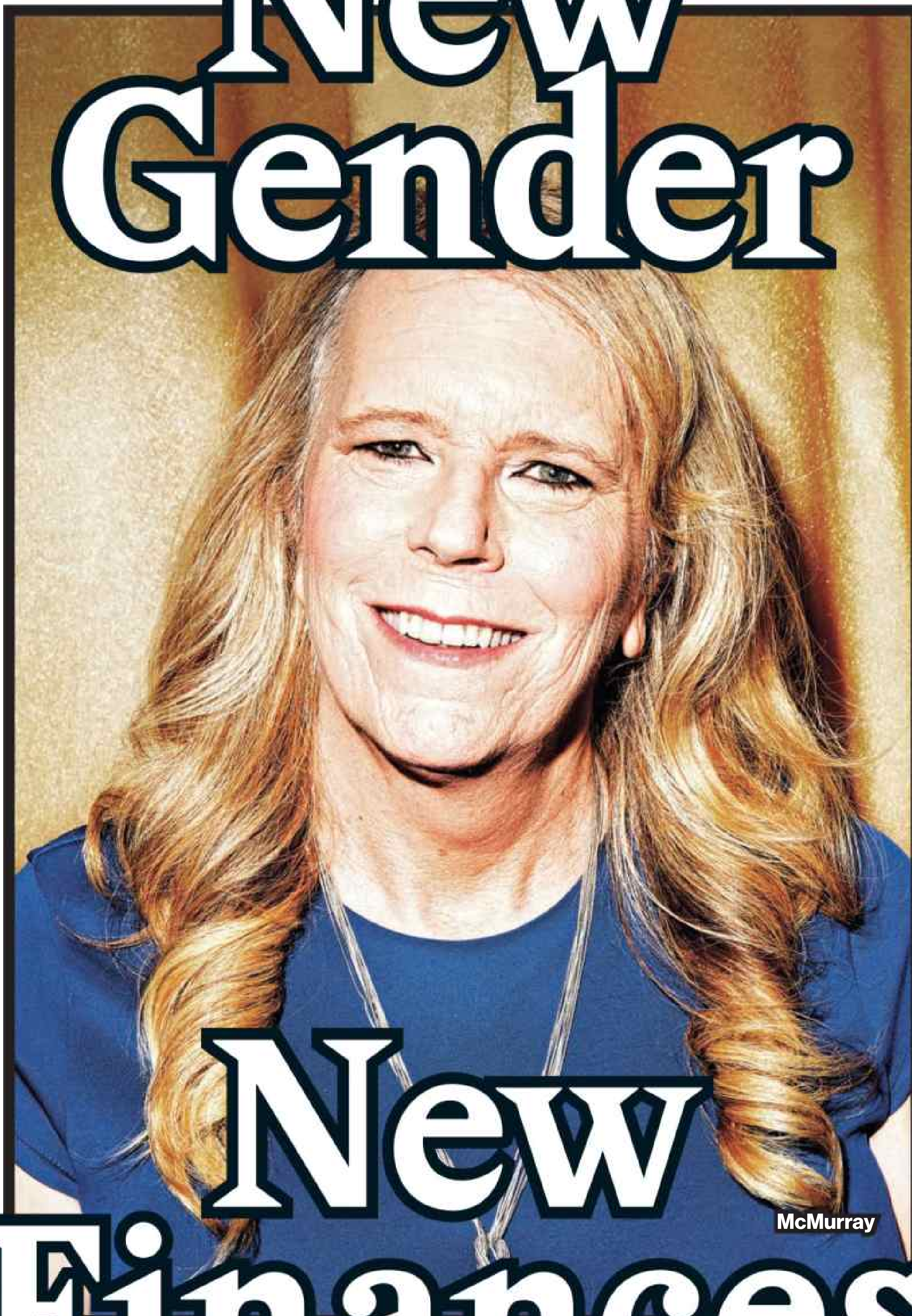
New Gender New Finances



McMurray

What trans people need to know about taxes, insurance, retirement, and more.

By Ben Steverman

Leslie McMurray's retirement account didn't survive her transition from male to female. The 58-year-old had to spend almost $70,000 on medical treatment, including electrolysis to remove hair from her face. "It's hideously painful," she says, "and costs as much as a Hyundai." An additional $100,000 went to living expenses, when her transition abruptly ended a 35-year career in radio and TV. She finally found a nonprofit job paying less than a fifth of her old salary. McMurray also lost a 33-year marriage, a 4,500-square-foot house in the Dallas suburbs, and most of her possessions.

"And," she adds, "I've never been happier."

Much is demanded of transgender people, from the emotional to the physical. Less talked about is that living in one's true gender also requires financial grit, as transitioning can have economic consequences that are harsh or bewildering or both. Success starts with the right attitude, McMurray says, four years after her transition began. "Understand it's going to take a long time," she says. "It's not an easy thing to do. Get good advice and a good therapist. Go through the process. Don't be in a hurry. Get it done right."

You may not want or need the full treatment, which usually starts with hormones, then can include facial surgery and voice therapy, and only sometimes ends with gender-reassignment surgery. If you do, insurance can help. A record 60 percent of the country's largest employers offer trans-inclusive health-care benefits, according to a survey of 851 corporations by the Human Rights Campaign, up almost sixfold from 2011. New regulations, scheduled to go into effect next year, also require insurance plans on the Affordable Care Act exchanges to offer transgender health coverage—though this area of care is jeopardized by the election of Donald Trump, who's pledged to repeal Obamacare.

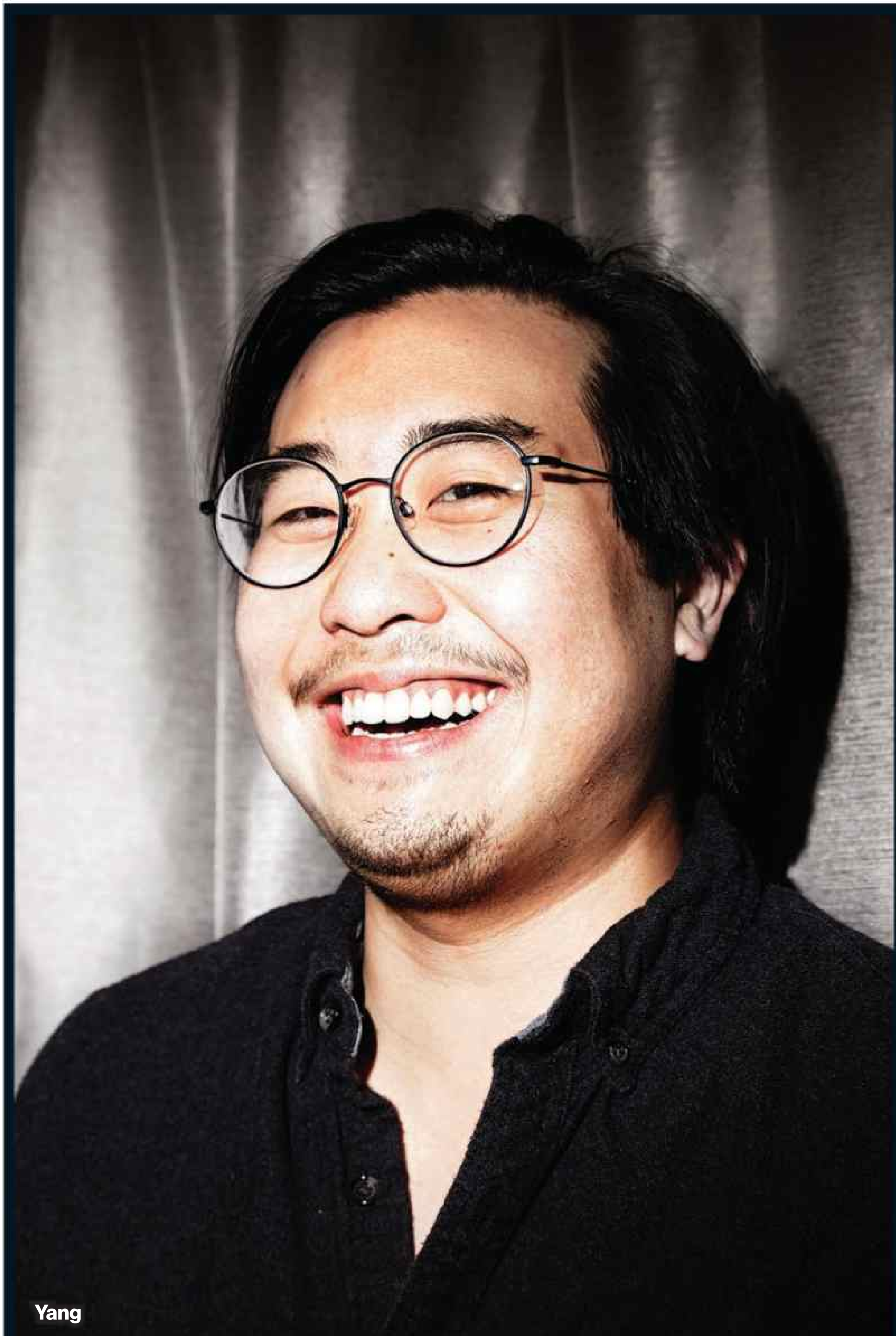
Even if the status quo remains, coverage can be confounding. "Insurance is a complex and dark maze for a lot of people," says Jillian Weiss, executive director of the Transgender Legal Defense & Education Fund. Trans-inclusive insurance policies may cover hormones and final "top" and "bottom" surgeries, but not other recommended treatments you may need to look and feel like your true self. "They're not covering the things you really need to survive and thrive," says Alaina Kupec, 47. She works for a large pharmaceutical company that thought it was offering trans-inclusive health insurance. Then her insurer denied her claims for electrolysis and facial feminization—and she lost three levels of appeals. "I pushed the system," she says. "I didn't take no for an answer." Finally, her employer agreed to pay for the treatments her insurance company wouldn't approve.

Keep track of everything you spend out of pocket on your care. The IRS lets you deduct medical expenses on your taxes if they exceed 10 percent of your income. (It's 7.5 percent for taxpayers 65 and older this year.) It can take years to medically transition, but because of both taxes and insurance-deductible rules, it might make sense to schedule as many procedures as possible in the same calendar year.

A growing number of companies publicly pledge not to discriminate against lesbian, gay, bisexual, or transgender workers. But that may not help you, especially if you have a low-ranking position. "The question is whether it filters down to the factory floor," Weiss says.

If you're hoping to switch careers, transitioning could complicate the process. "The job interview will be going great, and then at some point they will realize we are trans," says Drian Juarez, program manager of the Los Angeles LGBT Center's transgender economic empowerment project. "We are hypersensitive to those clues that let us know that someone has 'clocked us.' All of a sudden we see their body language change." Even if you go "stealth" during the interview, a background check or your references could inadvertently out you as trans.

Twenty states—and many local governments—ban workplace discrimination against


Yang

transgender employees and applicants. In places that don't, federal law offers no explicit protections, but courts and the Obama administration have said trans people are protected under the sex discrimination provisions of the Civil Rights Act of 1964. Under President Obama, the U.S. Equal Employment Opportunity Commission has been handling more complaints from trans people–183 were resolved in the 2015 fiscal year, according to commission data, up from 74 two years earlier. Nonprofits and private attorneys are also taking more cases. There's no telling what the Trump administration's policies will be.

Changing your name and gender on every government ID, bank account, vehicle registration, credit card, library card, and frequent-flier program you've ever signed up for can be laborious. But going through the hassle can ultimately make life a lot easier.

Allison Scott, a 42-year-old transgender woman in Asheville, N.C., says she's been told: "It's just your name on a piece of paper. It's not a big deal." She says that "shows there's zero understanding" of the true importance of one's name. The consequences of mismatched paperwork can be trivial or life-threatening. An outdated ID can broadcast that you're transgender to everyone who sees it, from bank tellers to nightclub bouncers to the police. "If there's an 'M' on your driver's license, guess what jail you go into?" McMurray says. And it's tough to get admitted to a hospital with the wrong information on your insurance card.

Even minor discrepancies on financial accounts or insurance documents can send up a red flag, putting you in a bureaucratic maze to get the right treatment or gain access to your own money. "You want to make sure every crack is filled," McMurray says. "You'd be surprised at the thing that will jump up and bite you."

Along the way, don't assume people know what they're talking about. That goes for human resources people, financial advisers, government clerks, insurance company employees, and anyone on the other end of a customer service line. You might need to make yourself an expert on insurance treatment codes, for example, or on your state's rules for changing your name and gender on government documents.

You may need to call again and again and again, knowing you could be the first transgender person an employee has ever dealt with. But you're not alone. About 1.4 million American adults identify as transgender, the Williams Institute at the University of California at Los Angeles estimated in June. That's 0.6 percent of the adult population, twice the estimate from a decade ago.

Earlier this year it took eight calls for Andrew Nardella, 35, to get $2,500 out of an old retirement account listed under his former name. Every time he called, employees and their supervisors told him something different about the proof he needed. He finally got the money when, desperate to pay for food and rent after a move to New York City, he accused the account provider of discrimination. Scott says she's been battling for 18 months to update her 401(k). It still lists the wrong name.

Whatever happens, don't get discouraged. Not everyone will be unfriendly. Gwen Fry, 56, is a former Episcopal priest who now cleans houses for a living in Little Rock. She lost her job at a local church after transitioning two years ago and hasn't been able to find other work. Through all that pain and difficulty, she says, one of her "smoothest experiences" was changing the name on her bank account at a local branch. "They were very gracious and respectful," she says.

And there's hope. Aiden Yang, 23, had no trouble getting his insurance to pay for "top" surgery in September. His employer, a large technology company, devotes an HR person specifically to help trans employees navigate the insurance bureaucracy.

"It sounds like there were trailblazers at my company who made it a lot more normal," Yang says. He's overheard co-workers–who don't know he's trans–saying transphobic, homophobic, and sexist things. Still, he's making plans to come out at work. "I feel that being trans is part of me," Yang says. "I'd rather be out and be visible, because I think it's necessary." B

Minor discrepancies can put you in a bureaucratic maze—and even make it difficult to access your own money

And the Nominees For Best New Bill Are...

To win the Oscars of paper currency, a note must be both beautiful and secure.

By James Tarmy

The International Bank Note Society was founded in 1961 by a group of people who collected, traded, sold, and admired rare paper currency. It wasn't a large community. For decades, the IBNS's activities extended more or less to a trade journal, a membership directory, an annual mail-bid auction, and networking events. Meanwhile, the rare-coin trade was big and getting bigger, growing into what the Professional Numismatists Guild estimates to be a $5 billion business.

Then, in 2005, the IBNS made an announcement: Its members had chosen the first annual "Bank Note of the Year." All bills introduced into general circulation the preceding year had been eligible; voters were instructed to choose the one with the best combination of artistry and security. The IBNS may have been tiny, but it knew how to stoke rivalry among the world's mints. The news release crowning the winner, a Canadian $20 bill with a sublime portrait of Queen Elizabeth II, said it had "only just beat the new Faeroese 200-krone bank note," which featured "a Ghost Moth printed in intaglio amongst blades of grass." An obscure global tournament was born.

The Faeroe Islands avenged the loss the next year, and subsequent winners have included Bermuda, for a $2 bill with anticounterfeit features that belie its low face value, and the Comoros, for a 1,000-franc note bearing poetry. ("From our feelings, what you expect I understood / For it is a love that is so absolutely exclusive / That, not to lose you, I hereby consent.") Kazakhstan reeled off a three-peat from 2011 to 2013. The U.S.'s staid greenbacks have never won. As the competition has gained more attention, IBNS President Dennis Lutz says proud governments have begun to get in touch, trying to handicap the chances of their new Maldivian rufiyaa and Macanese pataca.

IBNS members are about to vote for the best bill of 2016. Among the nominees—see the following pages—are entries from England, Switzerland, and Georgia, whose 50-lari note is full of medieval iconography. Lutz won't tip his hand, but he says patterns do emerge among admirers of paper (and, now, polymer-based) currency. "I have to say, right now people are really going for color," he says. "And they like things like flowers and birds. Not people." B

Switzerland 50 Swiss franc

Those whimsical Swiss are embarking on a series featuring "the many facets of Switzerland." Faces are out; objects, places, and characteristics are in. This one depicts wind.

Australia 5 dollar

Australia's new note displays a novel top-to-bottom window feature, which is as much about anti-counterfeiting as aesthetics. Rounding it out, the Queen of England shares top billing with the eastern spinebill and examples of the "prickly Moses" wattle, a type of tree.

England 5 pound

The Bank of England's first polymer note entered circulation in September. Bank Governor Mark Carney took one to a food market to dip in a vat of curry, demonstrating it was waterproof. The food-related stunt proved inauspicious when the bank acknowledged the bills were made with trace amounts of animal fat. A Change.org petition to ban the component received more than 52,000 signatures within 24 hours.

New Zealand 50 dollar

The Kiwis' NZ$5 note was the "clear winner" in 2015, the IBNS said, with a map inset in a "gorgeous polymer window" and a "color-changing yellow-eyed penguin." The NZ$50, part of the same family, features Sir Āpirana Ngata, a prominent Maori politician.

Scotland 5 pound

Scotland mints bills that are accepted widely across the U.K. After a series of polls and focus groups, the country chose the theme "the fabric of nature" for its new £5 and £10 notes. The fiver features the writer Nan Shepherd (1893-1981), best-known for her book *The Living Mountain*.

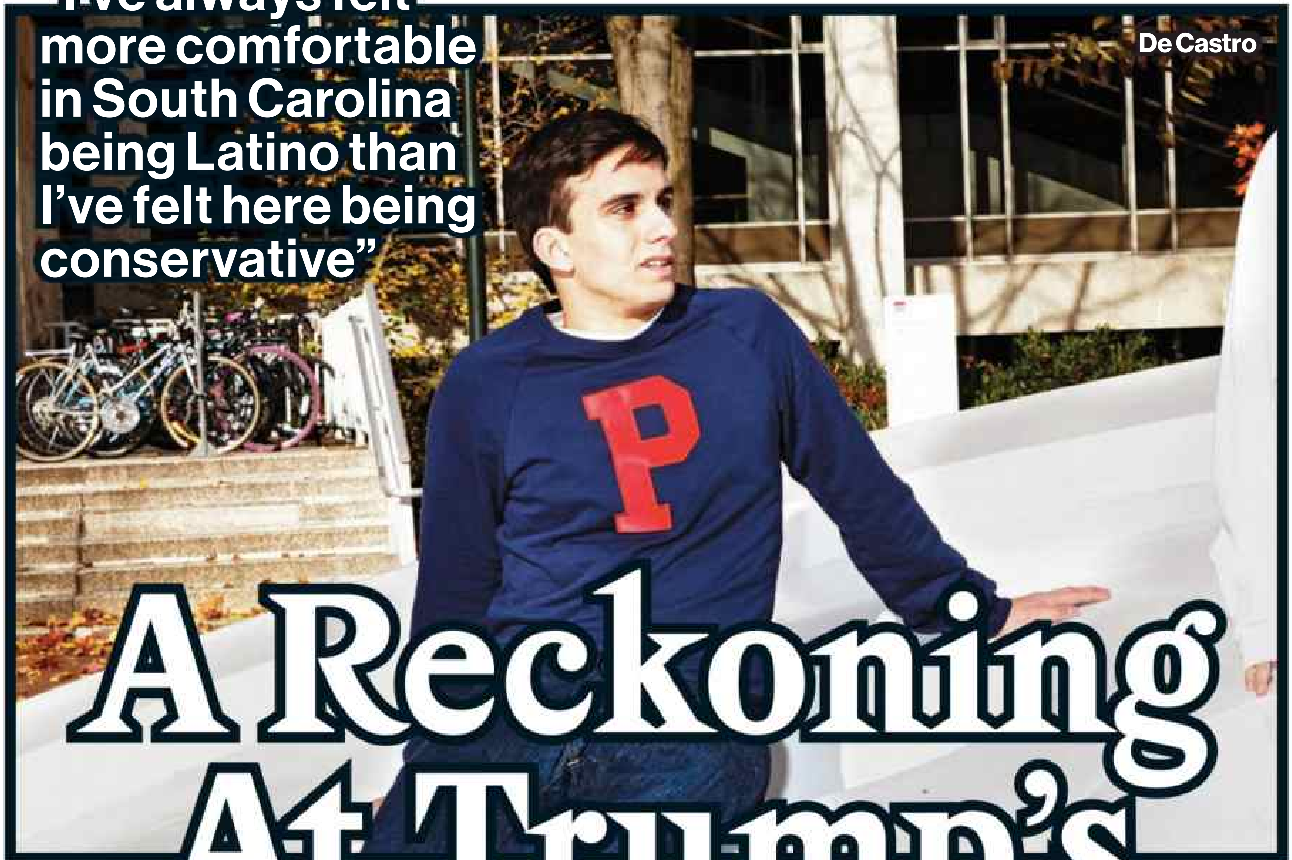
Georgia 50 lari

On the front is Queen Tamar, who ruled the country from 1184 to 1213, a period known as the "Georgian Golden Age." The note has a holographic stripe and a magenta-to-green security thread.

Maldives 1,000 rufiyaa

Its theme is "the beauty in our surrounding." The primary side depicts a whale shark, with an underprint that gives shading to its skin; on the obverse is a green turtle.

“I’ve always felt more comfortable in South Carolina being Latino than I’ve felt here being conservative”



A Reckoning At Trump’s Alma Mater

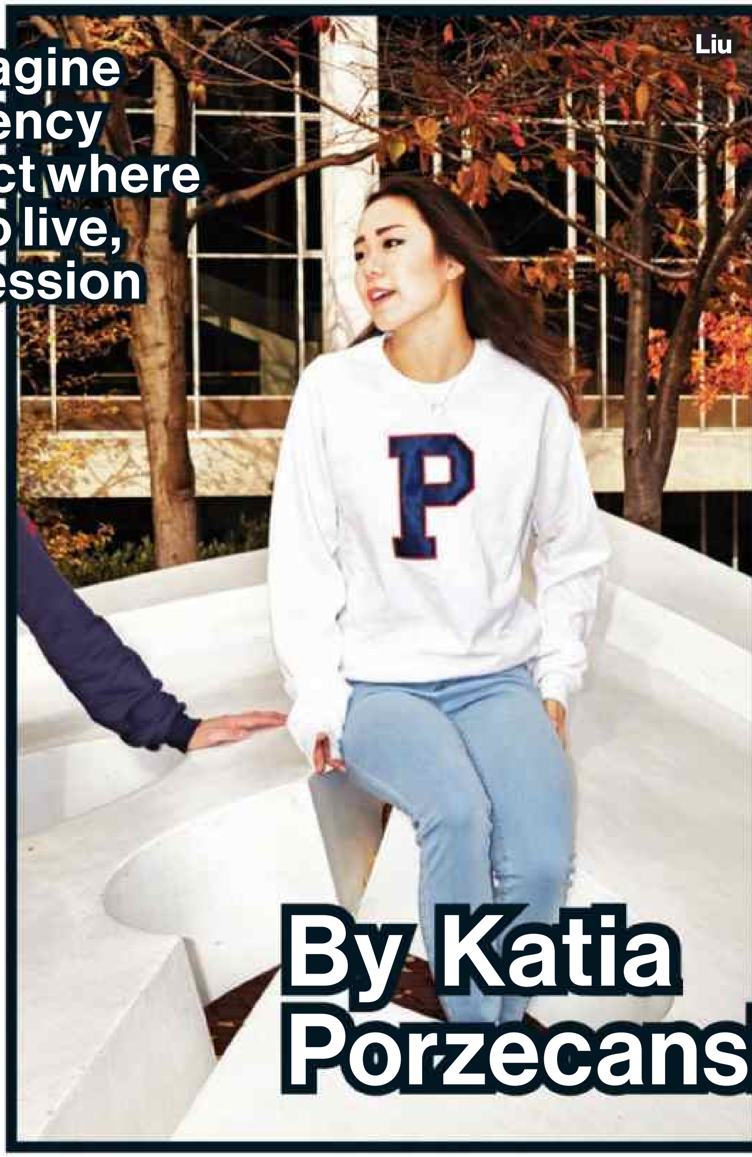
On the campus of the University of Pennsylvania, one week after the election of Donald Trump, senior Luis De Castro sat on a bench, thinking about his first vote for president. A naturalized U.S. citizen originally from São Paulo, De Castro was wearing a shirt he made himself, with “Make America Great Again” scrawled in red permanent marker. A couple of yards away from us was a large sculpture of a broken button. The artwork, a popular meeting place for students, had been transformed: Through two holes, someone had attached a massive makeshift safety pin, a symbol of support for minorities who’ve suffered abuse since Trump’s win. At Penn, several black freshmen had received racist messages on a group texting app, and the entire campus was on edge. Colleges everywhere are reeling after the election, but here there is a special resonance—President-elect Trump is a member of the Wharton School’s class of 1968.

As Penn’s business school, one of the most prestigious in the country, Wharton has long had a certain cultural tension: It attracts those who identify as capitalists as teenagers, while being situated on a more or less liberal Ivy League campus. After Election Day, hundreds here participated in a Walk of Solidarity, and one residence hall brought in puppies to console distraught students. But De Castro is among a right-leaning Wharton set that is savoring victory—to a degree.

He looked down at his T-shirt. “On the walk here, I was more scared to walk down campus than I’ve ever been at any other point,” he said. “It’s dumb to say that. I’m just wearing a shirt. But that’s what the vibe’s been.” In the days after the election, one of De Castro’s professors postponed an exam, and others replaced lectures with discussions. De Castro found it ironic that a campus dedicated to tolerance was hostile to his beliefs, which he began to develop after emigrating from Brazil to South Carolina. He called himself a “white elephant” at Wharton: a social conservative and a fiscal liberal. “I’ve always felt more comfortable in South Carolina being Latino than I’ve felt here being conservative,” De Castro said.

Penn’s politics have changed since Trump graduated from Wharton’s undergraduate program. He transferred in after two years at Fordham University in New York, and during his presidential campaign, he touted his degree as proof that he’s “like, a really smart person.” The Wharton community rallied to disavow the connection, with more than 4,000 current and former students, faculty, and friends signing an open letter to Trump

“I can’t imagine his presidency won’t affect where I choose to live, what profession I go into”



The future CEOs of Wharton are afraid. Or thrilled. Or both.

By Katia Porzecanski

that rejected “the use of your education at Wharton as a platform for promoting prejudice and intolerance.”

Few people have followed the issues affecting minority students on Penn’s campus more closely than Wharton junior Elizabeth Winston, who covers the diversity beat for the *Daily Pennsylvanian*, the student newspaper. For much of the student body, Winston told me, the recent attacks on black freshmen—who were added into several GroupMe chats and harassed with racist slurs, propaganda, and an invitation to a “daily lynching”—were their first encounters with overt racism. (The messages have been linked to a student in Oklahoma.) And they took place in what they’d been told would be a secure, progressive environment.

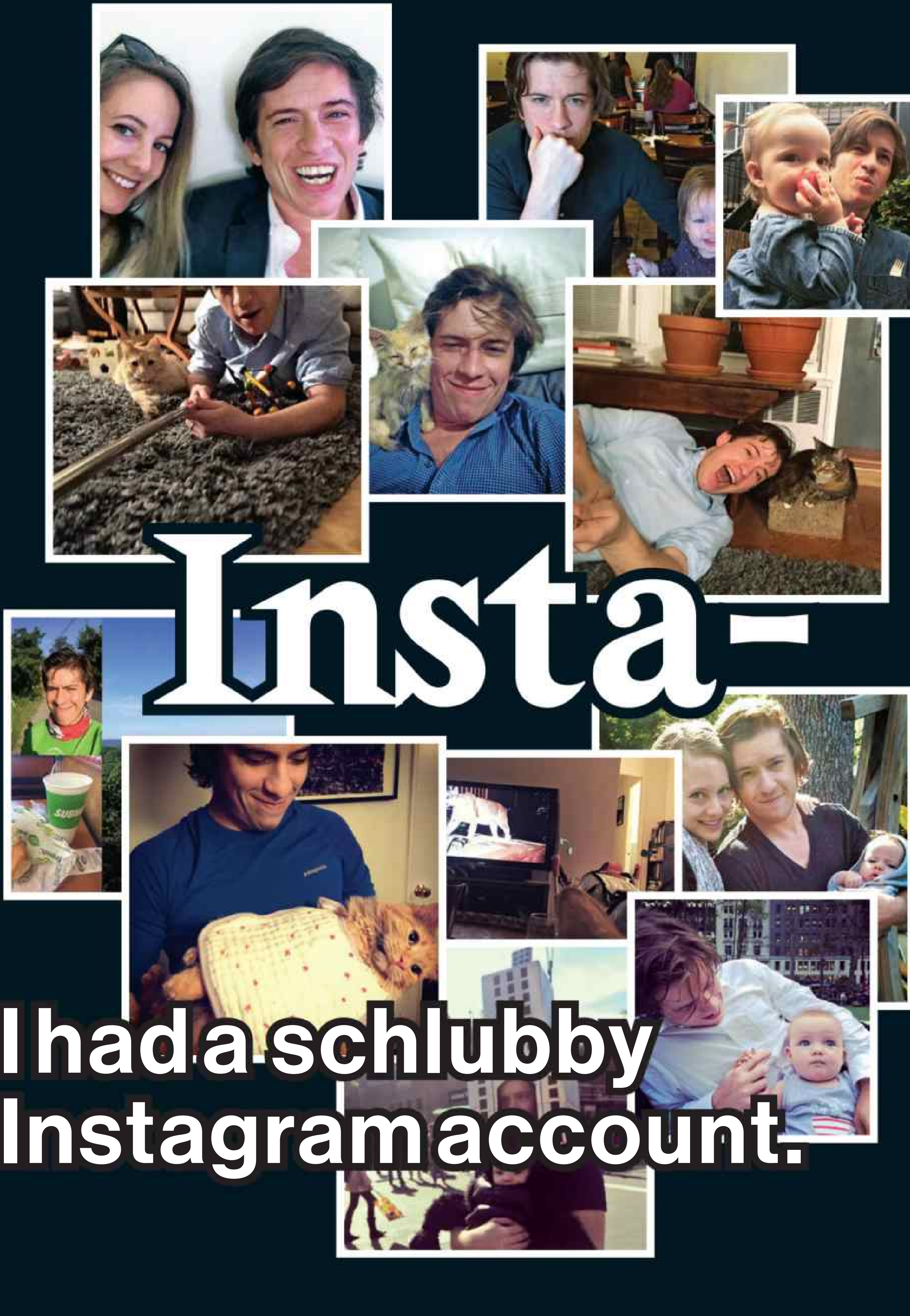
“I think that just really messed with people’s heads and made them feel unsafe,” Winston said, sitting in a campus Starbucks. “It was a wake-up call that racism’s still here, and this is not over.”

Another Wharton student, sophomore Sydney Liu, later told me that her friend and classmate, a black woman, had been verbally assaulted walking on campus just that morning. “Go home, you fat black bitch,” Liu said her friend had been told.

At the crowded Bridge Cafe, freshman Benyamin Shaker was wearing a sharkskin suit and a white button-down shirt. He looked more like one of my hedge fund sources than a kid who’d just left home for the first time, and as he talked about buying Mexican equities in his personal account to trade on the election, he sounded like one, too. Shaker was born in Iran to a Muslim family, though he said he doesn’t identify with any religion. At Wharton he’s studying real estate and finance, and considering going back to Iran one day. He couldn’t vote on Nov. 8 but is an active member of the UPenn College Republicans.

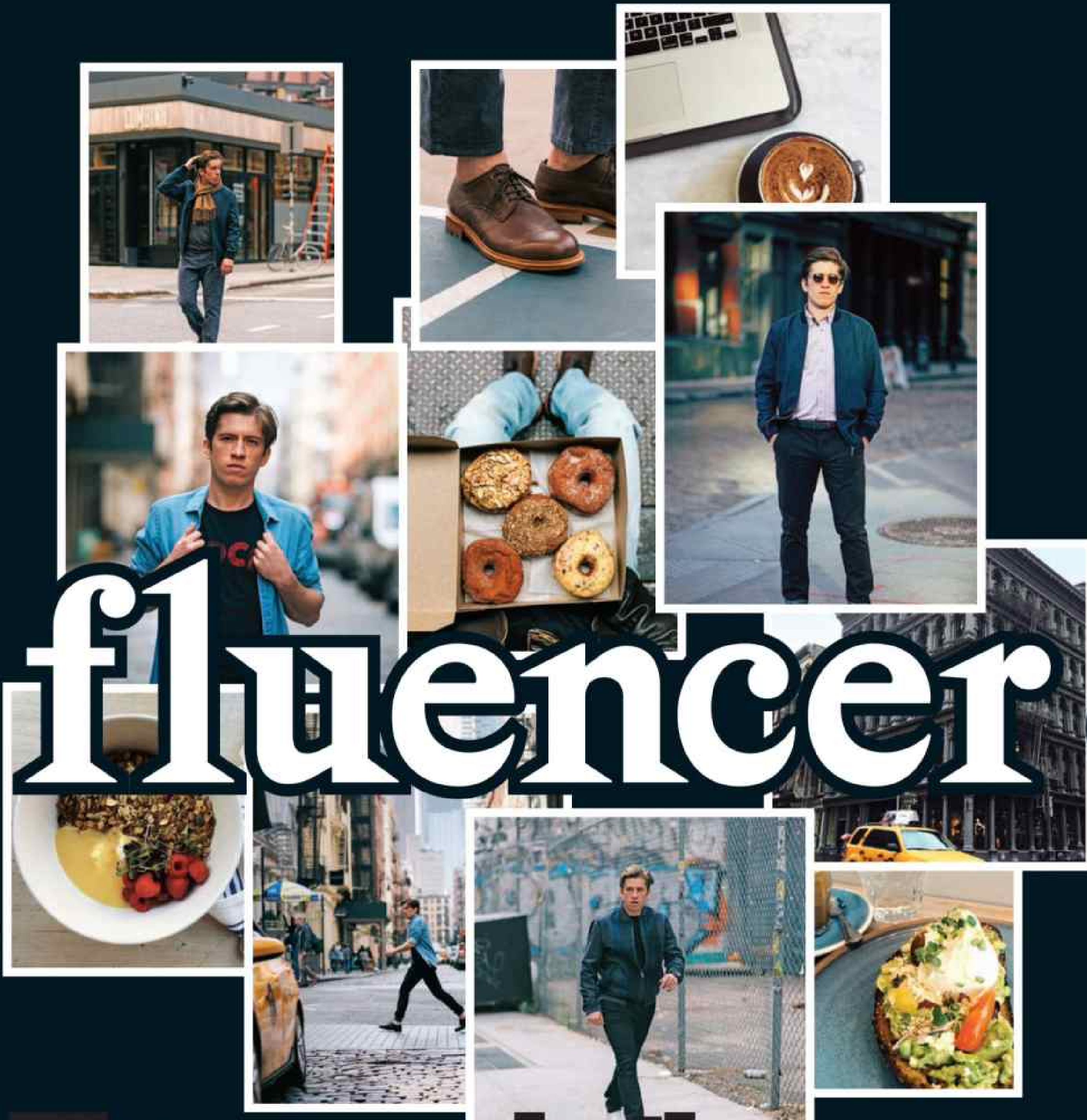
“Since the election we’ve been celebrating a lot,” Shaker said. “We’ve been very careful in not being open about it, because people are very sensitive about it. A lot of our friends are sensitive about it. So on our side it’s been very hushed up.” During the campaign, he said, a pro-Trump stand he and his friends helped set up on Locust Walk, the main street running through campus, got trashed within an hour. “People took everything, ripped everything up,” he said.

The hostility extends online, of course. Students’ Facebook walls are littered with bashing on both sides by peers or friends from home. “If you look at the campus as a whole, I think you would see a lot of blame and a lot of division,” Winston said. “It’s going to be harder than ever to come together over something like this with feelings that are so intense.” And Liu wondered whether the divide she sees at Penn will follow her after graduation. “As we go into the real adult world,” she said, “I can’t imagine his presidency won’t affect where I choose to live, what profession I go into, the people I surround myself with—or who I kick out of my life.” B



Insta-

I had a schlubby Instagram account.



fluencer

Then a marketing agency made me a star.

By Max Chafkin

I've always been well-liked. At least, I think that's the case. I have friends, a spouse, a job, a college degree. I exercise. I get haircuts regularly.

And yet lately I've felt unrealized–incomplete, almost. Everywhere I look on social media, I'm surrounded by extremely attractive, superbly groomed men and women who eat meals that are not only healthy but impeccably plated. My clothes seem tired, wrinkled, bereft of accessories. And my vacation photos–Christ, my vacation photos.

I should mention I've been spending a lot of time on Instagram, the app for sharing photos that is also, according to sociologists and my own experience, a perfectly designed self-esteem subversion service. Whereas Snapchat encourages users to create rainbow-vomit selfies that disappear after 24 hours, Instagram's sleek design and flattering filters encourage its more than 500 million users to sexify their landscapes and soften their harshest features. It helps them turn snapshots into something out of the glossy pages of a lifestyle magazine.

Because of this–and because advertising budgets will inevitably flow to any medium where large numbers of people are spending large amounts of time–Instagram has attracted a sort of professional class. These "influencers," as they're known, are media properties unto themselves, turning good looks and taste into an income stream: Brands pay them to feature their wares. Look a little more closely at your Instagram feed, and you'll probably notice that attached to the post of the gleaming hotel lobby, the strappy heels, the exquisitely berried breakfast is a sea of hashtags–among them, #ad or #sp, which discreetly disclose that these are in fact sponsored posts.

There are thousands, perhaps tens of thousands, of influencers making a living this way. Some make a lot more than a living. The most successful demand $10,000 and up for a single Instagram shot. Long-term endorsement deals with well-known Instagrammers, such as Kristina Bazan, who signed with L'Oréal last year, can be worth $1 million or more. Big retailers use influencers, as do fashion brands, food and beverage companies, and media conglomerates. Condé Nast, publisher of the *New Yorker* and *Vogue*, recently announced that it would ask IBM's artificial intelligence service, Watson, to take a break from finding cancer treatments to identify potential influencers.

Earlier this year, on the marketing website Digiday, an anonymous social media executive ranted that marketers were essentially throwing money away on influencers, whom the ranter characterized as talentless. That made me curious, and I started asking around to understand just how hard this job really is. Some swore the work is difficult. "If it was so easy to be an influencer, then every single person on earth would do it," said Gary Vaynerchuk, who parlayed a YouTube channel into an ad agency, VaynerMedia, that specializes in social media marketing and now employs 650 people. But another influencer guru, Daniel Saynt of the agency Socialyte, disputed that. With the right guidance, he said, almost anyone could Instagram professionally. To prove it, he made me an offer: He'd help me become an influencer myself.

The plan, which I worked out with my editor and a slightly confused *Bloomberg Businessweek* lawyer, was this: With Saynt's company advising me, I would go undercover for a month, attempting to turn my schlubby @mchafkin profile into that of a full-fledged influencer. I would do everything possible within legal bounds to amass as many followers as I could. My niche would be men's fashion, a fast-growing category in which I clearly had no experience. The ultimate goal: to persuade someone, somewhere, to pay me cash money for my influence.

In late September, two weeks before the experiment was slated to begin, I reported to Socialyte's headquarters in New York's SoHo neighborhood. The agency manages 100 or so Instagram personalities, taking 30 percent of their bookings in exchange for setting them up with gigs. Many of these clients

Instagram-ready grooming

PREVIOUS SPREAD: BEFORE: COURTESY MAX CHAFKIN; AFTER: PORTRAITS: JAMES CREEL; LIFESTYLE: ALISHA SIEGEL

The Ladder of Influence

Considering a full-time career on Instagram? Here's a rough guide to the rates you can command per post, according to Socialyte.

$250

10k to 100k followers
You're popular by any normal standard, but you barely rate in this crowd.

$1,000

100k to 250k followers
Your background-blurring bokeh game is strong; your brows are on fleek.

$5,000

400k to 1.5m followers
You're breathing rarefied air, but don't stop. Hire a photographer, a stylist, and a publicist.

$10,000

1.5m to 50m followers
Time to go multiplatform: Become a brand ambassador, snag a Hollywood agent, consider a sex tape.

$100,000

50m followers
You are a Kardashian.

have millions of followers, and Saynt won't talk to you unless you have about 100,000, but he agreed to make an exception for me and my 212. Saynt, a big man with a soft voice who wears an expression of perpetual amusement, greeted me with a hug and apologized for being a little lethargic. "I'm on a detox," he said, adding that the previous week—Fashion Week in New York—he'd been on a seven-drink, pack-a-day bender. He mostly stayed quiet as Beca Alexander, his ex-wife and Socialyte's president, and Misty Gant, the vice president for talent, peppered me with advice.

I needed a haircut, for sure, and would have to keep my fingernails clean. Socialyte would suggest a photographer for me to hire, and I was told to bring 20 or so mix-and-match outfits to a shoot, to generate a huge volume of "looks" to post each day.

"So," Gant asked me, "what brands do you wear?"

After an awkward exchange during which I half-muttered the words "J" and "Crew," it was decided that I couldn't be trusted to dress myself. Saynt and his team would find brands willing to lend me clothes and would enlist a couple of influencers to help me put ensembles together. I would bring essentially nothing to the table. "You don't have a cute dog, do you?" Alexander asked.

A week later, after a haircut the price and duration of which I refuse to share, I met Marcel Floruss and Nathan McCallum, two of Socialyte's professional clients, at Lord & Taylor to borrow some outfits. The two men are opposites in almost every way. McCallum is compact and favors ripped jeans and piercings, and Floruss is lanky and clean-cut. Both are cartoonishly handsome, and both (I noticed this later when I checked out their Instagram work) have amazing abdominal muscles. "Constantly," Floruss said, when I asked him how often he takes pictures of himself. "You sell part of your soul. Because no matter what beautiful moment you enjoy in your life, you're going to want to take a photo and share it. Distinguishing between when is it my life and when am I creating content is a really big burden."

I'd assumed two things about the beautiful people of Instagram. First, I figured they used the service the way Instagram suggests—that is, snapping pics and immediately sharing them with friends. Second, I assumed they took the photos themselves. Neither was true, as I learned when, on an unseasonably warm morning in early October, I brought 18 outfits to the Socialyte office. I met James Creel, my photographer for the day, as well as McCallum, who'd agreed to offer me styling tips, and his own regular photographer, Walt Loveridge, who'd joined in case McCallum felt inspired to do some modeling himself. The plan, as we trooped out the door into SoHo, was to shoot all the looks in a single day. "Let's go find some walls," Creel said.

The basic formula for most influencer portraits involves standing in front of a textured backdrop—usually a wall that's brick or painted in some stylish way—and looking off, unsmiling, into the middle distance. Creel, who works as a personal trainer when he's not shooting Instagram models, asked me to step out from doorways, so he could capture me paparazzi-style. He constantly asked me to run my fingers through my hair, and I was forced, for several hours I think, to rock onto and off of curbs, as if I were charismatically jaywalking. We ended up needing a second day. At one point during our 12 or so hours together, after I'd successfully walked in between taxis (primo color pop) and pursed my lips, Creel lowered his camera and offered a sincere compliment: "That was a great moment."

I posted my first picture around noon on a Sunday morning— a relatively conservative three-quarter-length shot, in which I perform a sultry lean against a chain-link fence in a plaid Perry Ellis bomber jacket. Appearing incongruously atop my previous photos—the utterly ordinary postings of a new dad—it didn't get a digital "like" for 15 minutes. That pace didn't bode well. Moderately successful influencers might get 100 likes or more in that period, and as I tried to focus on supervising my year-old daughter's play date, I was getting worried.

I probably should have anticipated this. Part of what makes Instagram valuable to advertisers is that there aren't many shortcuts to accruing an audience. Unlike Twitter, for instance, where a clever quip can be quickly retweeted, bringing a deluge of followers, Instagram is relatively resistant to viral growth. Pretty much the only way you can add to your flock is if someone happens on your profile, likes what he sees, and decides to follow you.

How do you get people to discover you? Your best hope is to use hashtags—that is, sticking a pound sign in front

of a keyword to make it easier for users searching for a specific type of photo to find you. There's something tacky about using #liveauthentic, which has been deployed more than 14 million times, to get strangers to look at pictures that essentially amount to advertisements, but every influencer I spoke with assured me that hashtags worked, so hashtags it would be. Saynt recommended that I include at least 20 with every post.

To avoid looking totally desperate, I hid my hashtags below a series of line breaks. To avoid any unnecessary creativity, I used an app, Focalmark, which allowed me to input a couple of variables about each shot—for instance that it was a portrait, containing menswear, in New York City—and would then spit out a list of hashtags. They were so embarrassing that I tried not to read them before sticking them in my Instagram feed. But here are a few that I used regularly: #menwithclass, #mensfashion, #agameofportraits, #hypebeast, #featuredpalette, #makeportraits, #humaneffect, #themanity, and, of course, #liveauthentic.

By dinnertime, I'd posted a second picture and had acquired a few dozen likes and roughly three followers. That's actually not bad for somebody with an almost nonexistent presence on Instagram, but it was discouraging to me, because I would need at least 5,000 followers to have any hope of making money. That night, I signed up for a service recommended to me by Socialyte called Instagress. It's one of several bots that, for a fee, will take the hard work out of attracting followers on Instagram.

I'd ever put on Instagram, including a shot in which I was holding my newborn daughter. In the picture, which my wife snapped from the end of the hospital bed, I'm lying back with my eyes closed, blissed-out and exhausted. It's the best, most honest picture anyone has ever taken of me, and it has half as many likes as that shot of me in the bomber jacket on the chain-link fence.

Socialyte had suggested I create three posts a day, which sounds easy since I already had most of the pictures I would need. It was not easy—and I spent much of the next month in a state of constant dread, mostly because I hadn't told my friends or family members about my Instagram experiment. After my mom gently inquired about, as she put it, "your male modeling career," and I told her I was working on a story, she let out a sigh. "Oh," she said. "I was worried there was some massive insecurity going on." My baffled friends also had questions. "First, you look boss. Congrats," my friend Dave wrote in a comment. "Second, what is going on?"

Another difficulty was that I'd been told to post at least one piece of "lifestyle content"—that is, a picture of something other than myself—every day. In general, pictures of people get more likes than anything else, but the idea was to create a sense of variety and to avoid boring my new audience. Alexander suggested sunsets, cityscapes, and food. "You don't have to eat it," she offered. "Just make it pretty."

"Constantly," Floruss said, when I asked him how often he takes pictures of himself

For $10 every 30 days, Instagress would zip around the service on my behalf, liking and commenting on any post that contained hashtags I specified. (I also provided the bot a list of hashtags to avoid, to minimize the chances I would like pornography or spam.) I also wrote several dozen canned comments—including "Wow!" "Pretty awesome," "This is everything," and, naturally, "👏👏👏"—which the bot deployed more or less at random. In a typical day, I (or "I") would leave 900 likes and 240 comments. By the end of the month, I liked 28,503 posts and commented 7,171 times.

Most committed influencers, including Socialyte's clients, use bots in one way or another, but it should be said that this is an ethical gray area. Instagram doesn't explicitly ban bots, but its terms of service do prohibit sending spam, which, when viewed in a certain light, is exactly what I was doing. On the other hand, except for a single user who somehow had me pegged and accused me of being a bot, nobody with whom I interacted seemed to mind the extra likes or comments. In fact, most of them would respond immediately with comments of their own. "Thanks dude!" they'd say. Or they'd simply give me a "🙏." I got hundreds of comments like this.

By the time I fell asleep that first night, I was getting a steady stream of likes and adding a new follower every couple of hours. By morning my post had more likes than anything

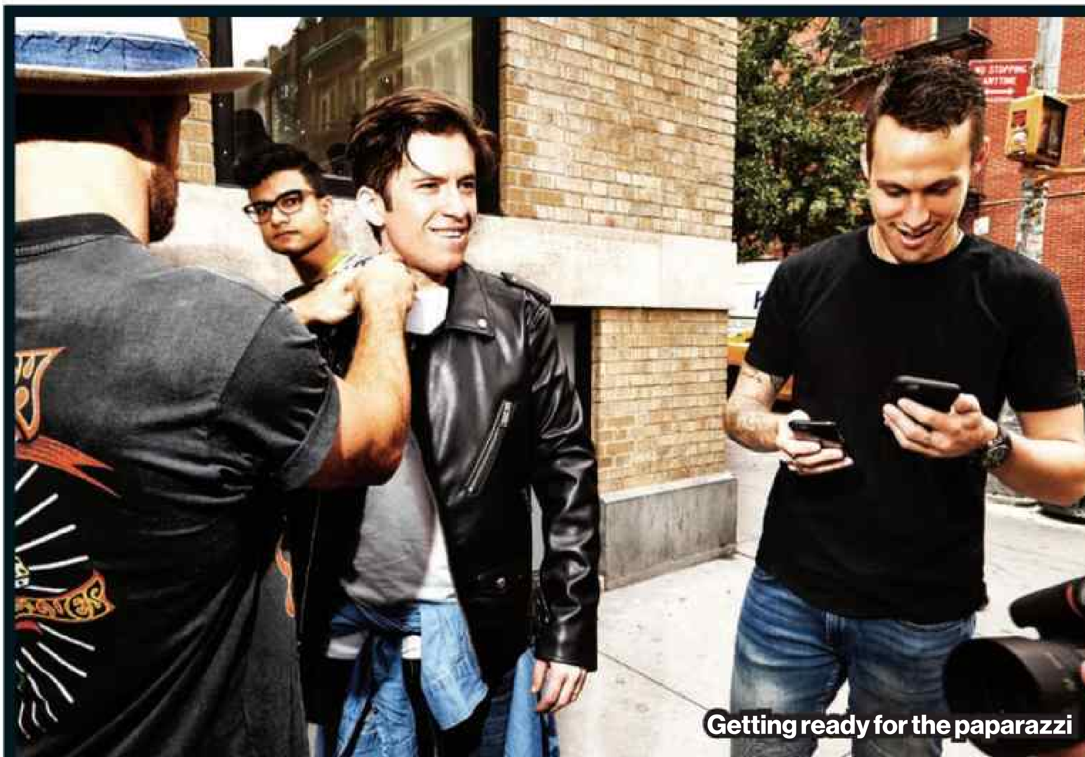
I did my best, ordering fancy cocktails I wouldn't normally drink and trying to eat items, like avocado toast, I'd seen on Instagram. It was not enough. A week into our experiment, Alexander and Saynt informed me, in the gentlest manner possible, that my lifestyle content was terrible.

The natural solution was professional help. Alexander introduced me to Alisha Siegel, a wedding photographer by trade who also sells stock images to influencers. Siegel could offer me as many perfectly framed lattes, hipster hotel lobbies, and urban sunsets as I wanted. I bought 20 for $400, which brought my total tab for photography services to $2,000. I asked her about credit—should I note in my feed that she was the photographer? Siegel suggested that I might shout her out once or twice, but crediting her would break the illusion. As she pointed out, "You're the one who is supposed to be experiencing these things."

Armed with my lifestyle content, I felt a surge of confidence. I was adding 20 to 30 followers most days, up from 10 a day in the first week. When one of my friends asked me about a breakfast shot—specifically, what the hell was that yellow blob on top of my granola?—I evaded and moved on. (Citrus curd.) It no longer seemed weird that all day and all night my virtual double was doling out likes and saying things like "High five for that!" about pictures I had not seen and would never see.

By the end of Week Two, I'd reached 600 followers, or a threefold increase. Saynt told me he thought that if I kept it up, I could be at 10,000 by the end of the year, which would be enough to command maybe $100 per sponsored post. That was encouraging. But to keep up the pace, I'd have to spend $2,000 a month on photography services and also find a way to keep a steady stream of new outfits coming. There was no way I would ever break even on this; I clearly didn't have the talent.

On the other hand, I was already verging into "micro-influencer" territory, a hot new field within influencer marketing where, rather than hiring one or two big-time influencers, an ad agency will simply give out free merchandise to 50 small-timers. Micro-influencers are "a core piece of our strategy," according to Dontae Mears, a marketing manager at VaynerMedia. "You find the engagement is stronger. The trust is better. And you don't necessarily have to pay them."


Getting ready for the paparazzi

The breakthrough came as my follower count pushed above 800. I got a message from Andrew Hurvitz, a photographer in Los Angeles and the founder of Marco Bedford, a clothing line. "You want to collaborate?" he wrote. I was ecstatic.

A few days later, one of his T-shirts was sitting in my mailbox. I pleaded with my wife—who had come to despise my transformation—to follow me outside on a Sunday evening with our digital camera. I wore my coolest jacket. I looked, wistfully, to my left. I ran my fingers through my influencer haircut. The picture did pretty well, earning 156 likes and, according to Instagram, reaching 468 people. As an official spokesman for Marco Bedford (#ad #sp #liveauthentic), I feel compelled to say that I stand by my characterization that Hurvitz's shirt, which retails for $59, is "beautiful."

My experiment was winding down, but I'd begun to wonder whether there might be an easier way to do all this. The internet is full of services that purport to deliver followers by the thousands. Buying followers—or buying likes and comments, which are also for sale online—won't trick sophisticated advertisers, because Instagram reports actual impressions and audience size. But the tactic can help make your profile look a little more impressive. There was a chance that a fake boost could turn into genuine momentum. And so, with a week or so left until my deadline, I logged on to a site called Social Media Combo, which promises "high quality followers." Packages range from $15 for 500 to $160 for 5,000. Not wanting to gild the lily—and slightly concerned about corporate AmEx card ramifications—I went for the base package.

For two days, nothing happened. Then, without warning, I jumped from 885 followers to about 1,400 in a matter of hours. By the time I posted my final influencer photo—a lifestyle shot of a flower shop that Siegel had sold me—on Nov. 11, Instagram had removed a bunch of my new fake admirers, but I was adding enough followers to mostly offset the drop-off. As I write this, I'm back up to almost 1,400. According to FollowerCheck, an app that purports to analyze an Instagram account for authentic engagement, 1,168 of my followers are real. I'm afraid to look to see how many of my actual friends have unfollowed me.

I quit posting the following day, a Saturday, and didn't put anything on Instagram for a full week. There were moments when that made me anxious—I still have a killer shot of myself in a camel-hair coat that's perfect for #autumn—and I started asking my fellow influencers what they thought I should do with my newfound fame. "I wouldn't throw it away," offered Yena Kim, the creator of the Instagram account Menswear Dog, which has 288,000 followers. "You should turn it into this dapper writer guy."

Kim, a former designer for Ralph Lauren, told me she started her account as a sort of joke, too, posting photos of her shiba inu in men's sweaters and sport coats in the style of other popular fashion influencers. Now her dog, Bodhi, is a business and is represented by a special influencer pet agency, Wag Society. (The company is owned, improbably, by the New York Times Co. and boasts 150 clients, including hedgehogs, cats, and a potbellied pig named Esther.) "Whatever you do in life, it helps to have a following," Kim said. "It's going to help you professionally."

I am not and never will be Dapper Writer Guy. But I think she's probably right. I should keep going. As I wrote that last paragraph and prepared to mail Hurvitz his shirt back, I took another picture, an authentic one. It showed a desk—a horrible, embarrassing mess of a desk, with a paper plate and empty disposable cups and stacks of old magazines.

But as I went to post it, I hesitated, and had a thought: Wouldn't this look a little better with a filter? B

How Couples Do Money

(and Throuples!)

Seven conversations about love, trust, and splitting the check.

By Josh Eidelson, Eva Holland, and David Gauvey Herbert

Interviews have been edited and compressed for space

Samantha Lepre
Age: 25
Job: Waitress
Income*: $26,000

Branden Wilbarger
Age: 28
Job: Waiter / musician
Income: $55,000

The Couple Whose Band Might Blow Up

Home: Los Angeles Together: 4 years

Samantha: When we first dated, in Toledo, it was cheaper. We would go on dates a lot, and he would pay. But now that we've moved to L.A., and it's kind of pricey, and we're budgeting, it's just easier if we do everything 50-50. I think that started with the first meal, seriously. But my reaction was like—I understood it.

Branden: She understands that I have a lot more bills, and that I'm investing in something that is risky as hell. The band is called Bonavega. I never want to turn down a music opportunity. It's like I need to put all of my eggs in that basket right now, because in another five years it's going to be a lot, lot harder. I've got this span of time where I just have to f---ing laser focus. I'm in the right spot, where if you hit the jackpot, you can really, really go far.

Samantha: He has a new video coming out that's super high-quality, and it's going to blow the other ones away.

Branden: She's overly honest. Imagewise, I almost always take her advice, because she knows what she's talking about. She's supportive, and I like letting her take the reins in some things, because I'm in a relationship with her and I need her support. So I totally let her run with ideas. She actually lent me money at first.

Samantha: I definitely feel like I'm invested in Bonavega in some way. I would feel—I would want to kill him if he made it big and then we didn't date anymore, because I basically am the mastermind behind it all. So it would be an issue.

Branden: Oh, yeah.

Samantha: You know? For sure.

Branden: Well, look. Yeah, yeah, 100 percent.

*ALL INCOME FIGURES ARE APPROXIMATE

Leticia: We got married within nine months of meeting.

Veronica: I believe it was May 15, 2008, that they made gay marriage legal in California. Every day there were news reports and speculation about what the courts would do—you know, perhaps this is the only chance for couples who want to get married to get married. So we did. But we're still getting to know each other. We like to joke that we had a very traditional marriage. We didn't live together until literally the weekend after we got married.

Leticia: This is where it gets kind of interesting. I was horrible when it comes to money. If I had any money in my pocket, I just needed to spend it.

Veronica: What I learned that I wasn't aware of before was that she had a lot of debt from a previous relationship.

Leticia: This other woman was very, very materialistic. She liked expensive shoes. She liked expensive bags. She liked expensive makeup, and I bought it, and I bought it, and I bought it, because I was young and dumb and in love. Veronica is the opposite. She's not materialistic. She likes things that matter.

Veronica: Her debt was a substantial amount, like $7,000. I wasn't upset. I was more worried than upset.

Leticia: I just felt embarrassed. But I knew I was going to pay it off. I made that my hobby. I was infatuated. Every single day, I would check my score. Every two months, I called my credit card companies to get an increased credit line, because that helps your debt-to-income ratio. I opened up a new credit card of my own. I got a car on my own. It got to the point that my credit score was much higher than Veronica's.

Veronica: Once we built her credit, we went to a first-time homebuyers' workshop. Leticia started talking to real estate agents. And there was a house that was in our price range and had a yard and was in our neighborhood. So we just went for it. Buying the house together, it felt like an accomplishment, because I honestly for a while didn't think we would ever do it. It seemed like something that was unattainable.

Home: Los Angeles **Together: 9 years**

The Couple Who (Surprise!) Discovered Some Debt

Veronica Macias
Age: 34
Job: Gerontologist
Income: $47,000

Leticia Macias
Age: 32
Job: Construction estimator
Income: $65,500

The Couple Making $10 an Hour At Walmart

Home: Chandler, Ariz. **Together: 5 years**

Matt Fixel
Age: 28
Job: Walmart cart pusher
Income: $12,000

Renée Fixel
Age: 25
Job: Walmart checkout host
Income: $12,000

Renée: I had to stop going to school to work. That's when our finances became very hard. And after we both quit our jobs to work at Walmart, it was even harder. We make $10 an hour. And with student loans, it's just not enough pay to survive on. We don't have kids right now.

Matt: We can't afford it, not in this economy. But a lot of the women Renée knows from high school, they've all got the belly to show, "Hey, I've got kid No. 1 or kid No. 5 on the way."

Renée: We only have animals, and it's hard enough to afford them. We just had a vet emergency. Both of our cats got sick, and it was a huge dent in our pay—$200 for both. It's pretty nerve-wracking to talk about how much we'd be willing to spend, you know? They're our children.

Matt: When we go to the mall, there will be something I know she wants. And 9 times out of 10, I would prefer her to say, "Ooh, I want to get this for me. I'm going to go get it real quick." But she's like, "Nah, I don't know if I need it." She feels like she would be upsetting somebody. Most of the time, if there's something that I know Renée wants, I'll go get it. To make her happy is mainly the only thing.

Renée: I get a little frustrated at him. Sometimes I get a little bit surprised that he did that when I told him, "Not right now." I've got anxiety over money. I do.

Matt: I do want to go back to school or get a second job. But what it does to you to work that much, I'm afraid I'd be gone all day. My wife would not see me. By the time I got home, it would be too late at night. I'd be way too tired. Not being able to come home, sit down, and say, "Hey, how was your day?" and all that?

Ari Weisbard
Age: 35
Job: Legislative director
Income: $72,000

Rebecca Ennen
Age: 34
Job: Grass-roots fundraiser
Income: $70,000

The Couple Who Give 20 Percent To Charity

Home: Washington, D.C. **Together: 7 years**

Rebecca: I was really broke when I moved to D.C., and I knew I was going to need to go into debt until I found a job. Ari very generously offered me a loan of a couple thousand dollars. That made me nervous—we'd only been together for eight or nine months.

Ari: Which was long-distance.

Rebecca: So I moved here to be with him, was broke, and was accepting this big loan. But you were like, "I'd rather you owe me the money than owe the credit card company." I was really impressed by that but also scared, because it was like, "What if we break up?" It definitely felt fraught. But I did accept the loan.

Ari: I mean, I loved Rebecca, and I just really hate credit card companies.

Rebecca: We had totally different relationships to money. Ari had been saving for retirement since he was, like, 17. He had this whole system of personal finance, and I had: Money comes in, money goes out. I think I felt embarrassed that Ari was this unbelievably responsible person. But balancing that out, I was already thinking a lot about *tzedakah*. I wanted to be a person who gave away a lot of money.

Ari: We both feel like we come from privileged backgrounds. And there's a duty not to just coast on that and to spend a lot of time and energy in careers fighting for economic equality for everyone.

Rebecca: For the last couple of years, we've been giving 20 percent of our income away.

Ari: You can't really disown your socioeconomic privilege in terms of having gone to a school that's going to help you get a job. But when you have money in an account, you can quite literally give it away. For us, the real tension is basically between how much to save vs. how much to give away.

Rebecca: That's a thing in our relationship that we've really connected over, actually, is puzzling through this stuff together.

Ari: Somehow our financial conversations, we feel romantic and connected at the end of them, I think because it's a way of talking about values.

Rebecca: It's never just about—money is just a cipher for everything else.

Nozlee: At Yale, I always had campus jobs, and you never had campus jobs, in the way that that's one of the few things as an undergrad that sets some people apart. You had an iPhone when a relative minority of people had iPhones.

Jarrett: At that point, money would have been an uncomfortable thing for me to talk about. It would have been an uncomfortable subject to raise.

Nozlee: I remember once I was really excited about going to this new restaurant. I knew exactly what I was going to order and had saved up my personal money. But it was right before they were ready to close for weeks, and they didn't have several of the things that I had wanted to get. I was devastated. I remember we had this conversation: OK, we're still going to eat here—and Jarrett is going to pay for it. It was weird, because the way it was being paid was that your parents were paying your credit card bill. So the meal was going to happen, but it went from this kind of earned pleasure to a different kind of treat.

Jarrett: I didn't think about it that way. But now that you describe it, I do.

Nozlee: I cried.

Jarrett: The financial system that we were evolving then is kind of the ancestor of the system that we have now, which is that we don't keep track of how much each person is spending. It's a much more ad hoc arrangement about how our expenses get split, depending on our individual financial situations. It's moved back and forth a lot.

Nozlee: We were both in relatively shitty jobs making $36,000 a year for a while. I didn't have a job for about six months, and Jarrett took all the expenses besides rent. That was a weird time. And now Jarrett is a graduate student and makes $25,000 a year, and I'm a programmer and make $110,000 a year, and I pay for most things.

Home: New York **Together: 7½ years**

The Couple With A Huge Income Role Reversal

Marko Marjanovic
Age: 32
Job: Software developer*

Meghan Marjanovic
Age: 33
Job: Biologist*

(*For now—they're starting a brewery)

The Couple Who Make the Yukon Look Easy

Home: Whitehorse, Yukon **Combined income: $130,000** **Together: 16 years**

Marko: We traveled in Australia and New Zealand for four months and then decided to move to the Yukon and look for work. We were both unemployed–just moved for lifestyle.

Meghan: I found a job pretty quick with a First Nation, and Marko basically had the summer off.

Marko: I just didn't want to work until after we got married. I took a summer off to fish. We had free rent–a cabin, no utilities. Eventually I worked for a software company in town, and then we got permitted for the brewery about two years ago. We're passionate about craft beer. Hiking and beer are our two favorite things in the world.

Meghan: There was only one brewery in the Yukon.

Marko: Yukon's great for entrepreneurship. When [we] first started, it was just us, and then we grew. Now we're trying to open the tasting room, the first one in the territory.

Meghan: The brewery pays its own bills.

Marko: We never think twice about who pays what. We just, I dunno, whoever pays the bill pays the bill, and whoever buys something buys something, but we never consult. I don't even know how much money Meghan has in her bank account. She never knows how much is in mine. I don't know why we've never combined bank accounts.

The C
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Home: Charlotte

John: I just paid all my credit cards today, all my bills, and we have like $125 left for the month. So if I don't go out and tutor or she doesn't sell a painting, we have $125 left for gas and food. And so here comes out the credit card. It goes back to that cycle. It's sad, because I want her to not have to worry about anything. I want to give her everything she wants and everything that she needs to be a successful artist and feel like she has the tools to work and to be happy. But the debt feeds into more debt, and it's hard to save. This is stuff that I don't tell her, you know? It's like I'm here telling her now. It's like a confession.

Couple Who
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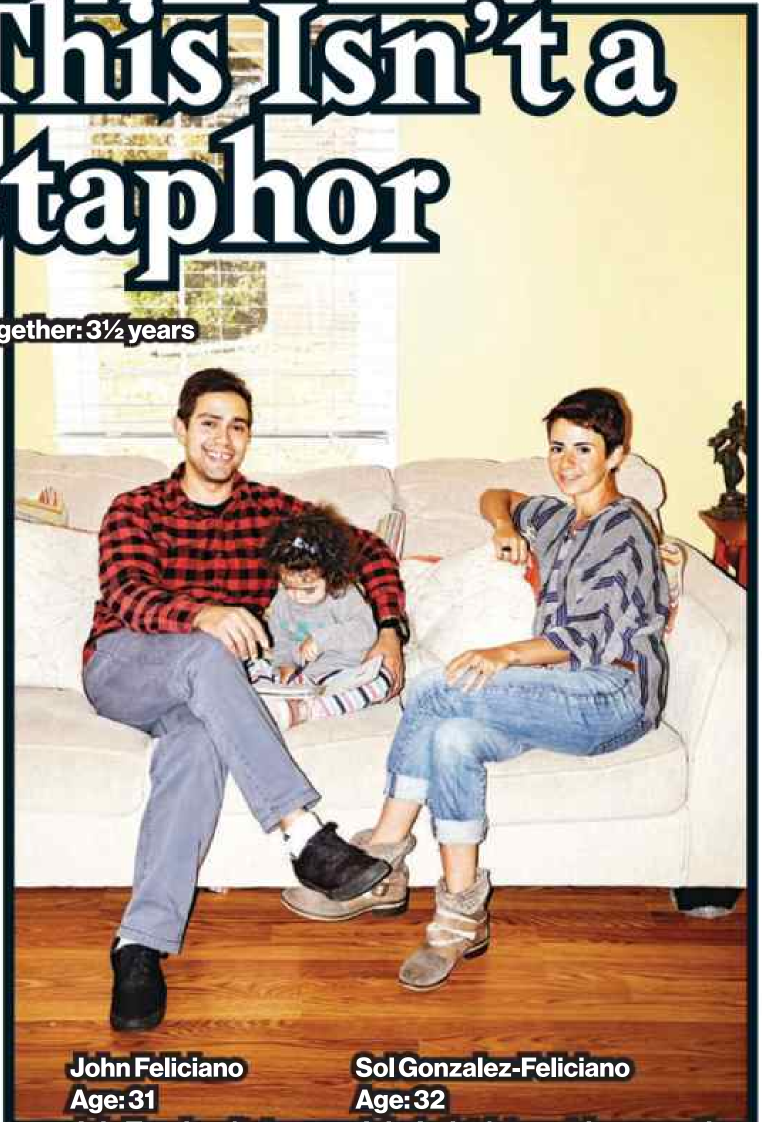

Together: 3½ years

John Feliciano
Age: 31
Job: Teacher / tutor
Income: $55,000

Sol Gonzalez-Feliciano
Age: 32
Job: Artist / stay-at-home mother
Income: $0

Sol: Well, I think we're starting again, hopefully. There was such a long time of me not being able to work—the visa process and not having the permit, plus the pregnancy. I have all my faith that I can start making money now.

John: You save us so much money by just raising our daughter. If you were to go back to work, your whole check would probably go to paying some nanny, which is preposterous.

Sol: In New York, I was staying at home, but I wasn't happy. We were fighting a lot; it wasn't the place I needed to be. And now I'm happy staying at home, because our home is an awesome place to be. In Charlotte we pay half of what we were paying in rent in Queens. We love playing outside. I'm feeling great. I'm starting to paint. It's like we made it. We are superhappy.

John: I don't tell her much frankly about the financial stresses. I kind of bottle it up and move things around, and I make it work somehow. I haven't come apart at the seams yet, so—actually, I say that as my shirt just ripped.

Sol: No way.

John: Literally, I just ripped it. Hopefully this isn't a metaphor.

Plus: How Throuples Do Money

Not every relationship involves only two people. **Diana Adams** runs a law firm in New York that specializes in legal and financial planning for nontraditional families, including three-person "throuples," or "triad" relationships.

Businessweek: This field seems pretty specialized. How new is it?

Adams: Very. We saw a need—particularly in the community of people who are polyamorous and people who are doing platonic co-parenting, such as a gay male couple co-parenting with a single female friend. They've been around since the 1970s, but in the last 10 years we've seen their numbers skyrocket.

BW: What's one of the more common triad configurations?

A: A male-female married couple who decide to bring a third person into their relationship. Maybe they have a mutual boyfriend or girlfriend. There's also a "V" triad. [Person A is involved with Person B and Person C, but B and C aren't involved with each other.]

BW: When a throuple comes to you, what are the most pressing financial issues?

A: If that primary original couple was married, they will already have many legal privileges. We talk about how the new partner may not have access to health insurance or immigration benefits, tax benefits. Some people are interested in the creation of an LLC to create the relationship under a corporate structure that would allow people to share property. Sometimes that original couple will decide to get a divorce so that they won't have that privileged status over the third person.

BW: What about divorce? For example, if three parties own a house in equal shares, can two partners force a sale?

A: That issue definitely does come up. We try to create an agreement in the very beginning so that we won't have a forced sale. Especially with a three-person dynamic, it can end up in massive litigation because the courts don't know what to do with it. The legal system tends to be about 20 years behind.

‘Hustlers Are I
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At a Hartford incubator, former drug dealers put their skills to legal use.

Entrepreneurs
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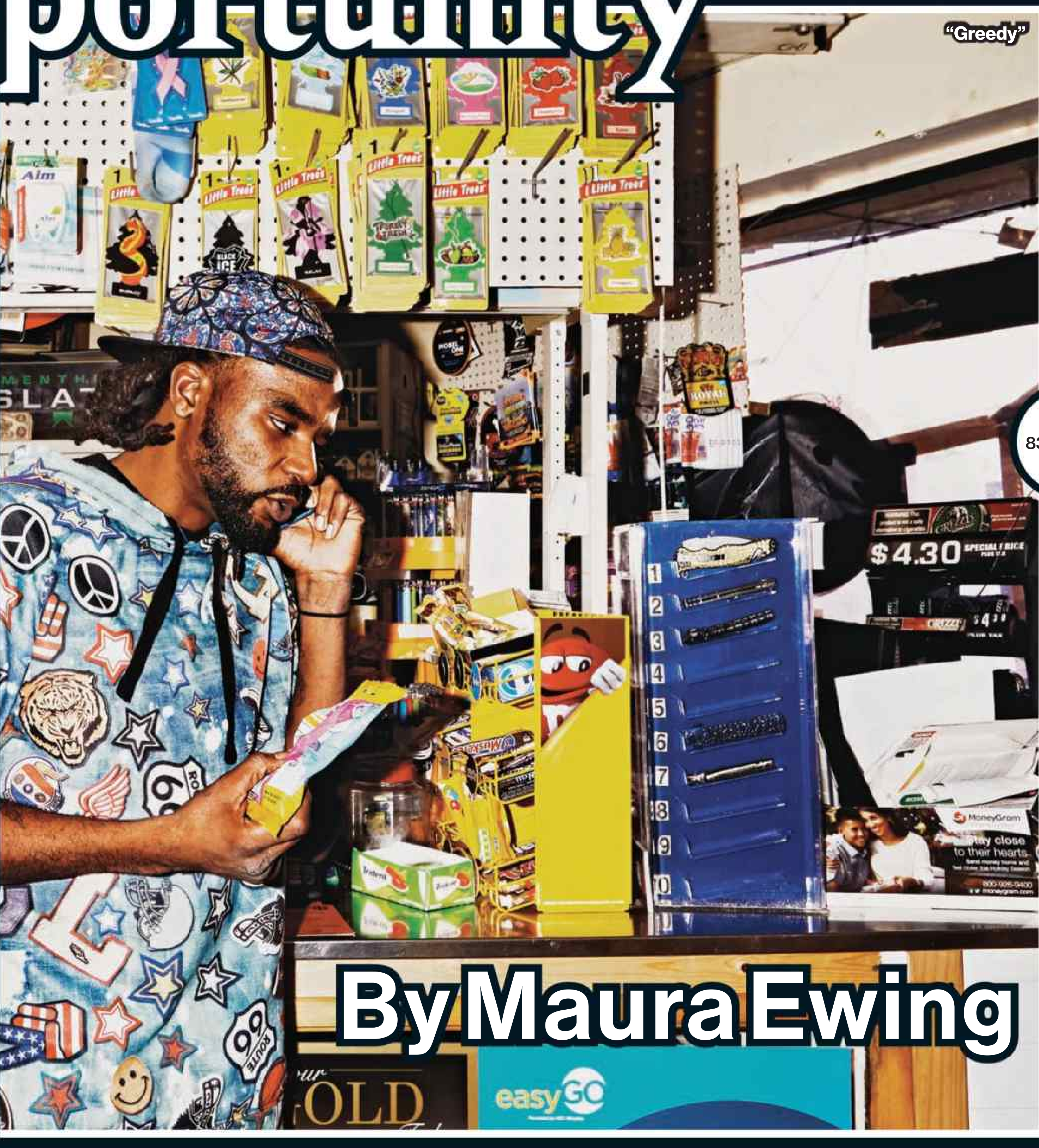

"Greedy"

By Maura Ewing


Greedy's caps for sale

“Most people
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Over the past decade, a number of government, academic, and nonprofit programs have attempted to address the structural problems that face convicts when they're released from prison—a campaign known as the "re-entry movement." One of the biggest contributors to misery and recidivism is an inability to find steady work. Former inmates encounter stigma, bias, and even formal obstacles to getting hired. Connecticut, for example, has 423 employment restrictions based on criminal records, including bans on obtaining a teaching certificate, operating commercial motor vehicles, and becoming a firefighter.

Amid calls for more job training, less automatic background searching, and other changes that would make it easier for ex-felons to become employees, an alternative idea has slowly taken hold: Encourage them to start their own businesses. The largest nonprofit pushing entrepreneurism of this kind is Defy Ventures, based in New York, which over the past six years has trained more than 500 formerly incarcerated people and incubated more than 150 successful startups. Defy has become a critical darling among social scientists, boasting a 3 percent recidivism rate among alumni, compared with the national average of 76 percent of released inmates who are reincarcerated within five years. Numbers like that made me wonder if Defy was a solitary success, peculiar to its founders or its home in a thriving city—or if similar efforts could help ex-convicts elsewhere, on a smaller scale. One interesting program, I was told, was under way in Hartford.

There, on the morning of July 9, a year to the day after he shed his prison uniform for street clothes, Bashaun Brown stood in a rented conference room. Beside him were two colleagues, both undergraduates at nearby Wesleyan University, and seated before him were four aspiring entrepreneurs. This was a meeting of TRAP House, Brown's creation, an incubator for former drug dealers who want to start legal companies. The name stands for "transforming, reinventing, and prospering" and is a play on the term for drug-stash locations.

Brown, 37, sported a backwards Wesleyan baseball cap and, on his forearm, a large black tattoo of a lion's head. "I'd like to thank y'all," he began. "I've been home one year. Y'all definitely helped me make it one of the best years. It's almost like a support group. Drug Dealers Anonymous." Brown is a teddy bear of a man. His dark eyes, framed by curled lashes, smile when he speaks. "Can't relapse," he told his audience with a knowing look. His recent prison term was for bank robbery, even though he had for years sold cocaine and heroin.

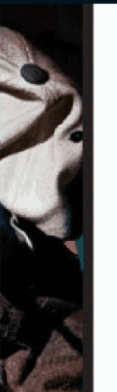
Brown's premise with TRAP House is that "hustlers are entrepreneurs denied opportunity." The agenda for class that day included honing elevator pitches, gaining access to seed capital, and calculating financial projections. Brown flipped through slides projected on a screen behind him from his laptop, a silver MacBook with busted hinges and a decal of Shel Silverstein's *The Giving Tree*. Angel investors, Brown told the group, are "a group of true capitalists who use money to make money. Like how some people live off the thrill of dealing drugs, these guys live off the thrill of that flip."

The four TRAP stars, as the students are called, were in their 30s. Brown asked each to practice an elevator pitch for hypothetical investors. Ruthie Hernandez, wearing a T-shirt printed with a picture of her incarcerated boyfriend, described an eco-friendly commercial cleaning business she wants to open up. Two other members of the group, Jermaine Rose and Bromwell Hill Jr., prefer to go by their rap names—Great and Greedy, respectively. Great practiced pitching his T-shirt company, looking up to make eye contact after every sentence. The effect was a little arrhythmic. "We make designs for the community," he said. "What we see the community needs, what the community is asking for. Designs that they want to see, to empower them."

Greedy, a lanky man with shoulder-length dreads and leopard-print sneakers, was a more natural speaker, mentioning a number of business ideas, including a mobile baseball cap boutique and a grilled-cheese food truck. "Who doesn't like grilled cheese?" he said. His real dream, Greedy told the room, was to start a music therapy program for children with learning disabilities, inspired by his experience teaching his disabled daughter to speak via hip-hop-inspired call-and-response.

Brown later told me that as he sees it, drug dealers have more business savvy than they realize. "If I'm talking about marketing research, I would tell the guys, 'Listen, you have done this before,' " he said. " 'You didn't just come to your 'hood and set up shop. No, you have to do some kind of research. What type of drugs do they want to buy? What price would they buy it for? How much would I make?' " The same is true of gauging risk. In addition to the potential of economic loss, a hustler must "look at the odds of getting caught and then do an analysis," Brown said. "Most people say that criminals are irrational. But when it comes to selling drugs, it's a highly rational choice." He kept riffing on such topics as team-building and customer relations. "The better drug dealers I know have great interpersonal skills," he said.

Born in 1979 in Plainfield, N.J., Brown had an early introduction to the drug trade. His father, Billy, was a successful hustler who pleaded with Bashaun to focus on his education. Bashaun obeyed, mostly, and went to Morehouse College, in Atlanta. After one year of school, he turned to the streets. Bashaun "became his own best customer," as Billy puts it, and



he soon found himself in drug-related debt, which led to an attempted robbery and a six-and-a-half-year sentence at Cheshire Correctional Institution, a prison in Connecticut. There he took advantage of a Wesleyan program, the Center for Prison Education, to take classes for four years with university professors and undergraduate assistants. Brown was a thirsty student, several of his former teachers say. In one literature course, after reading Bharati Mukherjee's novel *Jasmine*, about an Indian immigrant to the U.S., Brown wrote a paper comparing the protagonist's identity as defined by physical space to that of an inmate. He also studied economics.

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After Brown was released, on July 9, 2015, he used his Wesleyan contacts to get a meeting with Makaela Kingsley, the director of the university's Patricelli Center for Social Entrepreneurship, so he could pitch her on TRAP House, which he'd thought up while inside. "He has a brilliant way of seamlessly flowing from one community to another," Kingsley says. "His hypothesis was so compelling—that drug dealers are natural entrepreneurs. As is Bashaun as a person, which I think is inseparable from the idea." Her center agreed to provide $5,000 in seed funding. An additional $25,000 came from the organization's namesake, Bob Patricelli, a local health-care executive and philanthropist. He pledged the funds after meeting Brown only once. "He had a quiet presence and an interesting blend of humility and charisma," Patricelli says. "I just liked him a lot."

Brown promoted his incubator by walking the streets of north Hartford and visiting nearby halfway houses. He sought out drug dealers, but the only true requirement for TRAP House, according to a flier he distributed, was that applicants be "ready to use skills learned on the street to launch a legal enterprise." He showed a knack for publicity, talking up the program during interviews on TV and public radio. With a Yale professor he published a conversation about a 19th century prison memoir for the *Los Angeles Review of Books*. He also began taking undergraduate classes at Wesleyan and teamed up with two students there to help plan TRAP House events. One of them, Irvine Peck's-Agaya, 20, told me that she prepared by watching the HBO crime show *The Wire*, in case there was ever a session Brown couldn't attend.

On June 4, 2016, about a dozen TRAP House applicants were invited to pitch Brown and his Wesleyan partners, "*Shark Tank*-style," at Our Piece of the Pie, a youth center in Hartford. From that pool, the TRAP stars were selected. As the one-year anniversary of Brown's release approached, his incubator was off to a hopeful start. But whether it succeeded or failed, it appeared that Brown himself—without a college degree and with a felony record—might beat the odds.

Curious about how Greedy's business prospects were faring after the TRAP House session in July, I met him at home early on a Sunday evening in September. We drove to the parking lot of a convenience store in Windsor, his hometown, on the outskirts of Hartford. Greedy pulled a mesh rack of baseball caps from the trunk of his car and started showing them to a potential customer he'd just met inside the store, a white man wearing a black fitted cap and baggy jeans.

Greedy bounced to a rhythm in his head. He exclusively sells snapbacks—hats with an adjustable plastic strip that can be snapped to size or left open, as Greedy prefers. "They call me Mr. Unstrapped," he said, spinning his gray cap around so the unconnected straps framed his forehead. He started in on a sales pitch that connected the hat's aesthetics to something higher than fashion trends, more like a way of life. "You gotta free your mind, you feel me, you gotta let loose," he told his customer.

The man laughed. "Hell yeah, man."

"I'm a snapback connoisseur," Greedy said.

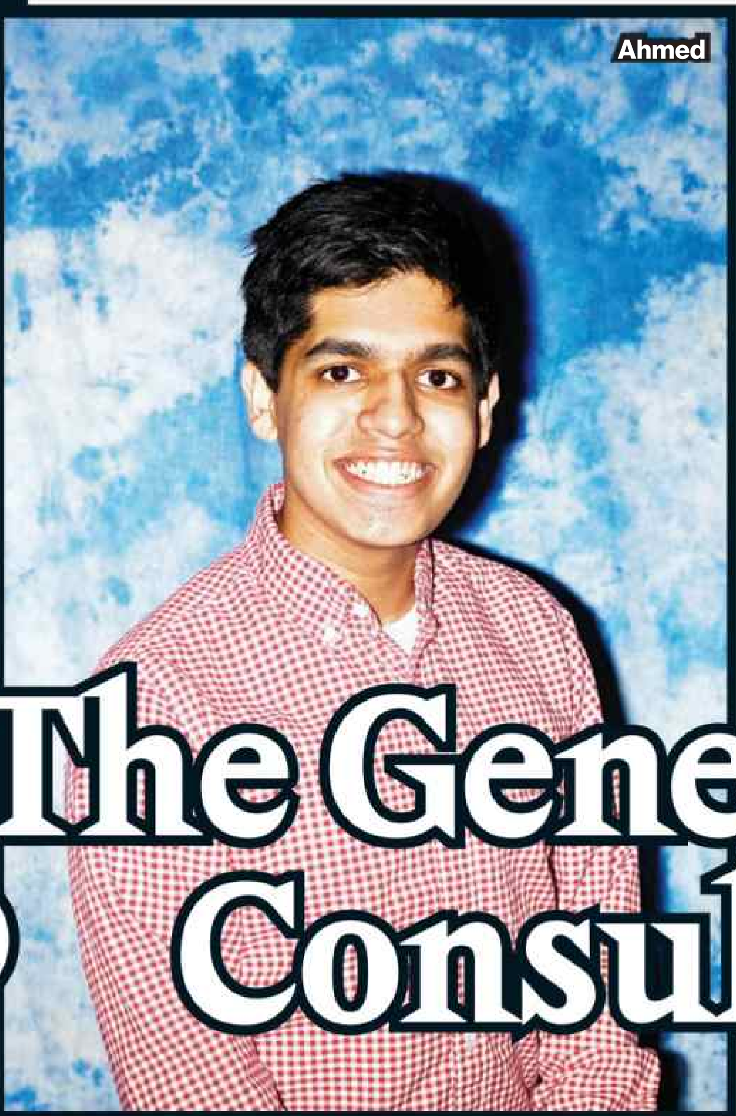
The 10 hats in his rack were all that remained from a shipment of 50, and they looked like leftovers. Greedy took out his cracked iPhone and showed a picture of the models he'd already sold, with flashier designs and vibrant colors. He'd bought the shipment with a zero-interest loan of $400 from TRAP House. He used the proceeds from his first 40 sales—$20 apiece, or three for $50—to pay back the loan and get another, but he said he was sitting on that money, unable to put it to use, because his hat supplier, a man named Jose, had become elusive.

Greedy's business model was shaped by what he'd learned selling drugs. Know your clients—he goes directly to the doors of many customers, who hear of him through word of mouth. Offer the best product at the cheapest price. Make sure your product stands out. "I was branded around my neighborhood as Mr. Exotic," Greedy said of his marijuana-dealing days. If there was a new, unique strand of weed available, he wanted to hawk it first. "That's the same thing with my hats," he said. "You're not going to get them anywhere else." He added that much of his pot client base carried over to snapbacks.

Before meeting Brown, Greedy saw his history as an obstacle to the type of life he wanted. TRAP House taught him otherwise, he said: "I can use it as a catapult." He didn't sell any hats that night, a failure that didn't seem to dampen his spirit. This was his day off from waiting tables at a local restaurant. And he had a number of other ideas for ventures, including personalized rap ballads, which he envisioned as birthday or Christmas gifts.

The founder of Defy Ventures, Catherine Hoke, had the benefit of years of experience in venture capital and private equity before she started her nonprofit. Brown lacked all that when he launched TRAP House, trying to make up the difference with enthusiasm and his own brand of hustle. For someone fresh out of prison, it may have been too great a load. In October I called Greedy to share an unsettling update: Brown was taking time off from school and his incubator. It wasn't clear what his reasons were, and I wasn't able to get in touch with him, despite multiple attempts over weeks. It was easy enough to see that he'd been burning the candle at both ends, between his academic and professional endeavors and keeping up appearances for journalists.

Greedy listened and said he still put Brown on a pedestal. He compared the situation to a basketball star in a close game. "If you're tired and you can't even do anything because you're so dead tired, you have to sit down," he said. An exhausted player, star or not, doesn't help anyone. "You mess everybody else's game up when you could have sat down, recharged, come back, and brought us to the victory." Ⓑ



The Generation Z Consultants

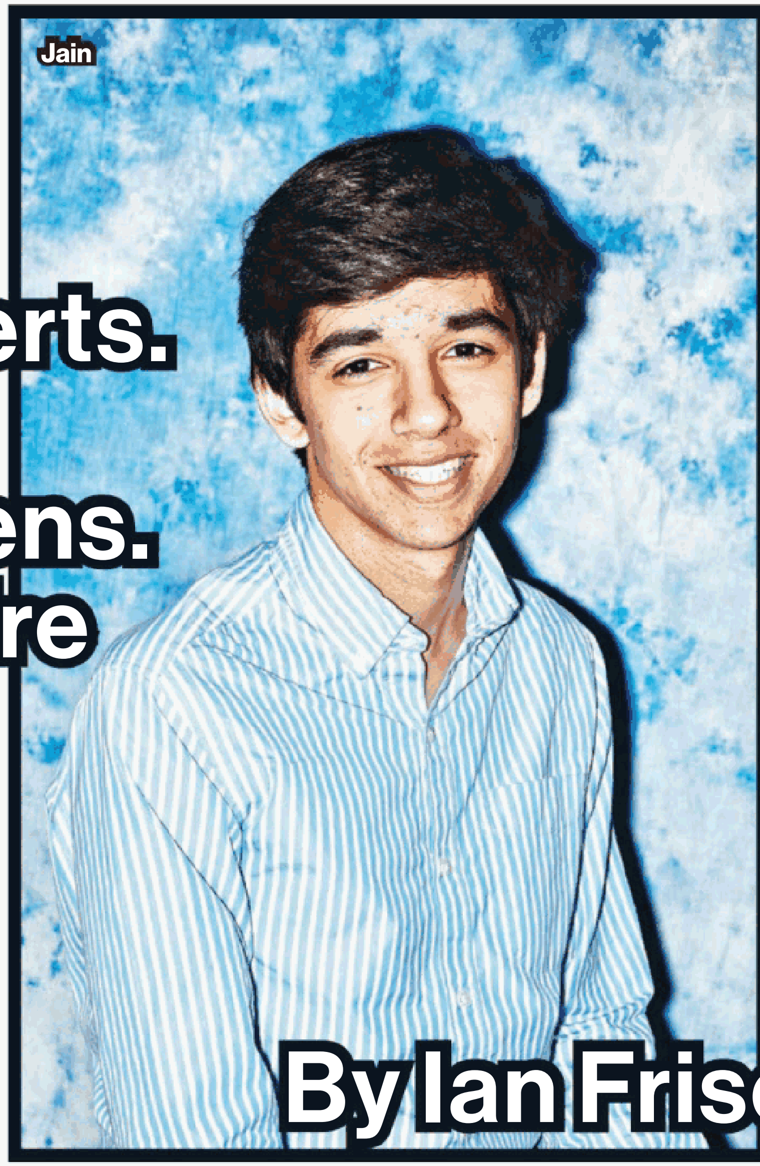
In the summer of 2015, at a Cornell University camp for high school students, a teenager from California named Melinda Guo met a boy from New Jersey named Ziad Ahmed. They shared an interest in business, marketing, and philanthropy. "You're probably going to be the only person I keep in touch with after this," Ahmed told Guo.

That fall, the two FaceTimed and texted about school and extracurriculars. Guo liked to attend marketing competitions designed for high schoolers, and Ahmed was devoted to a diversity nonprofit he'd started, which had gotten him invited to the White House's annual *iftar* dinner—held after sundown during Ramadan—the previous June. Guo and Ahmed hoped to work on something together, and that October, Ahmed called Guo with a pitch. He wanted to create a consulting firm focused on people like themselves: members of Generation Z. Those born after 1996 make up almost a quarter of the U.S. population and wield $44 billion in buying power. And adults regularly embarrass themselves trying to speak their language. "We were coming across advertisements from big companies that were tone-deaf," Guo says. "There was always too overt of an effort—it turns us off. So why not consult on how teens think, since we're teens ourselves?"

Nick Jain, a classmate of Ahmed's who'd also attended the Cornell program, joined their effort. The three crafted a mission statement, developed a marketing strategy, and played with names and logos. "We had all these terrible ideas," Guo says. "ConsulTeen and stuff—like, God, so cringeworthy." They started a text thread to keep track of their ideas. "One day I was like, 'Wait, what about Jüv,' " Guo says. It brought to mind *juvenile* or *rejuvenate*. Plus, the umlaut looked cool.

Guo, Ahmed, and Jain, all of whom are now 17 and seniors in high school, incorporated Jüv Consulting in early 2016. That summer, they got their first clients, joining a marketing advisory board for the California Adolescent Health Collaborative and helping the Women's Islamic Initiative in Spirituality and Equality (WISE) with multimedia production and branding. They also signed up *Very Good Light*, an online men's grooming publication. "If *Very Good Light* was going to be about Generation Z, I needed to closely work alongside them," says the site's founder, David Yi. Jüv advised him on a launch campaign, including branding and social media strategies that would resonate with teenagers. "They're so beyond wise for their age," Yi says. According to Ahmed, each of Jüv's handful of clients pays $1,000 to $5,000 for its services, depending on the scope of the project. WISE is on a four-month retainer, which includes biweekly

They're not just teen experts. They're actual teens. And they're for hire.



Jain

By Ian Frisch

Skype calls and monthly presentations for digital marketing campaigns.

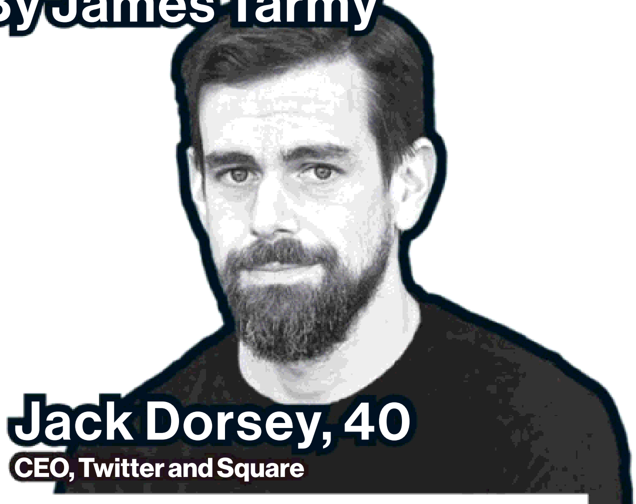
To anyone who thought about it, Jüv presented a conundrum: Does the kind of teen who starts a consulting firm really know what a normal teen wants? Ahmed acknowledges it's an issue. "It would be inauthentic and inaccurate to say that us three can unilaterally speak for our demographic," he says. But as with the old joke about two hikers who confront a grizzly—*I don't have to outrun the bear; I only have to outrun you*—Jüv only has to provide better insights into the teen mind than its rivals, all of whom are old. "One thing that sort of bothered me," Guo says, "was that there were adults out there calling themselves teen experts. I found that so weird. You don't need teen experts when you can just talk directly to teens."

In July, to broaden its perspective, Jüv created the Vine, a pool of about 300 teens from various socioeconomic backgrounds around the world—a global focus group for hire. They were recruited via social media from more than 20 countries, including China, India, Italy, Malaysia, Singapore, Swaziland, Switzerland, Taiwan, and Tunisia. Clients can float ideas about products or branding and get direct feedback from the teens, who are unpaid and chime in for fun. "The Vine is probably the most valuable aspect of who we are," Jain says. "We can do more in-depth projects with clients, and then we can back it up on a worldwide scale. Big companies are looking for that connectivity." In August, Jüv met in New York with Starcom Worldwide, a media agency, hoping to sign it—specifically, a team that works with Samsung—as a client.

Assuming there are such things as neatly segmented generations, it's a little fuzzy what distinguishes Generation Z from millennials. The former are said to be an unprecedentedly diverse, internet-obsessed, social-media-optimized bunch—which also describes the latter. Many of Jüv's digital tips, such as effective search engine optimization and clever captioning on social media, seem like universal truths on how to market online. Then again, Generation Z is still forming, still growing into itself. The Jüvies say that merits a place at the corporate table. "Your company will profit more by working with us directly," Ahmed says, "and we will profit more by being able to have a say in our own narrative." Some of that profit could come in the form of Jüv looking great on a college application. Guo says the three are considering Yale, Harvard, Princeton, Stanford, Penn, Columbia, Georgetown, Brown, and UCLA, among other schools. Ⓑ

40 and Under (and Underperforming)

The preceding pages celebrate youth. This one is a reminder that not every fresh face is having a great year. By James Tarmy



Jack Dorsey, 40

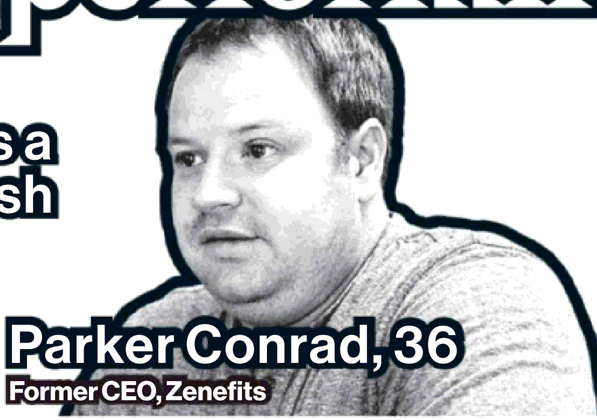
CEO, Twitter and Square

Twitter's shares have sunk as the social network struggles to combat hate speech and find a buyer. Including his stake in the payment platform Square, Dorsey has paper losses of $307 million this year through Nov. 21, or 19 percent of his net worth.

Mike Rothenberg, 32

Founder, Rothenberg Ventures

Notorious among venture capitalists for his lavish parties (they were parodied on the HBO show *Silicon Valley*), he lost control of his fund this year. Rothenberg Ventures has since been renamed Frontier Tech Ventures.



Parker Conrad, 36

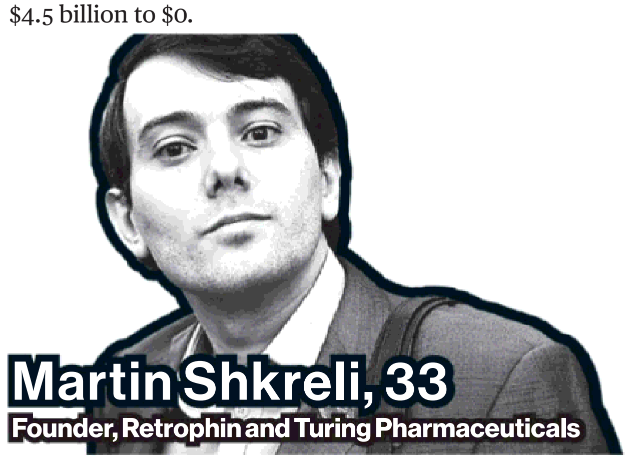
Former CEO, Zenefits

His company, devoted to disrupting human resources, was caught "disrupting" ethics regulations. Conrad resigned, and Zenefits' $4.5 billion valuation was cut in half.

Elizabeth Holmes, 32

Founder, Theranos

Her blood-testing company in Palo Alto imploded after it turned out that the tests didn't work. In July, Holmes was banned from the laboratory business for two years, and her net worth, as estimated by *Forbes,* was revised from $4.5 billion to $0.



Martin Shkreli, 33

Founder, Retrophin and Turing Pharmaceuticals

The reigning Worst Young Person of 2015—he was the poster child for drug price gouging—is now on trial for securities fraud. He started the year reeling from a $40 million trading loss. Now he's trying a new, risky defense in court: blaming his lawyers for giving him poor advice.

CLOCKWISE FROM TOP LEFT: KARL MONDON/BAY AREA NEWS GROUP/TNS/ALAMY; BRENDAN MCDERMID/REUTERS; LUCAS JACKSON/REUTERS; PETER MCCOLLOUGH; NEWSPIX/GETTY IMAGES

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